Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

Economic Effects of Offering a Federal Paid Family and Medical Leave Program

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Overview

H.R. 5376, the Build Back Better Act, as passed by the House of Representatives, would establish a program whereby the federal government would provide paid family and medical leave for eligible workers. That program would cost about $200 billion from 2022 to 2031, the Congressional Budget Office estimates.[1]

In addition to the effect on the federal budget, that program would affect workers, employers, and states. This document describes the key channels in the labor market through which those changes could affect the economy—answering some questions asked by Members of Congress. Understanding those channels would be important for identifying any potential effects on CBO's economic forecast if such a program was established. The document also describes channels through which such paid leave could continue to affect the labor market in the longer run.

If workers had access to federally provided paid leave, they would take more paid leave. Some workers would earn more and some would earn less, depending on whether their employers currently offer leave and whether they currently take any leave. CBO expects that most employers who currently offer paid family and medical leave would ultimately provide fewer weeks of leave and less pay during leave.

This document does not examine economic effects that would arise from how the program was financed.

[1] CBO has estimated the cost of a slightly different version of the bill, Rules Committee Print 117-18 incorporating a manager's amendment by Congressman Yarmuth. See Congressional Budget Office, "Estimated Budgetary Effects of Title XIII, Committee on Ways and Means, H.R. 5376, the Build Back Better Act" (November 18, 2021), www.cbo.gov/publication/57626.

Existing Family and Medical Leave Programs

Paid family leave provides benefits to workers who take leave to care for a close relative experiencing a serious health condition or to spend time with a new child. Paid medical leave provides benefits to workers experiencing a serious health condition that necessitates a work absence.

A handful of states offer paid family leave, medical leave, or both. Those programs are funded by payroll taxes.[2]

Additionally, employers may offer paid family and medical leave benefits as part of their employees' compensation packages. In 2020, 42 percent of private-sector employees had access to paid medical leave through short-term disability insurance at least partly funded by their employer, but only 20 percent had access to paid family leave provided by their employer. Higher-wage workers are more likely to have access to paid family and medical leave than lower-wage workers.[3]

Some workers purchase disability insurance in the private market, often as a supplement to other avenues of paid medical leave.

The Family and Medical Leave Act (FMLA) extends unpaid leave with job protections to workers under certain circumstances. About half of workers experiencing a qualifying event have access to unpaid leave under FMLA.[4]

[2] Currently, six states and the District of Columbia offer paid family and medical leave programs, one state offers paid medical leave only, and another three states have enacted legislation establishing paid family and medical leave programs but have not yet initiated benefit payments.

[3] See Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States, March 2020* (September 2020), Tables 16 and 31, https://go.usa.gov/xM943.

[4] In 2018, that share was 56 percent. See Department of Labor, *Employee and Worksite Perspectives of the Family and Medical Leave Act: Results From the 2018 Surveys* (report prepared by Abt Associates, July 2020), https://go.usa.gov/xMKSN (PDF, 6.71 MB).

Federally Provided Family and Medical Leave—Eligibility

To be eligible, under the provisions of H.R. 5376, workers would need to have a recent record of work and have had a qualifying life event. Claimants would be subject to a one-week waiting period before receiving benefits, so short periods of leave would not qualify for federal benefits.

Qualifying life events include the following:

- The arrival (through birth or adoption) of a child,
- A serious health condition of a family member, or
- A serious health condition of one's own.

A federal paid family and medical leave program would require new administrative infrastructure to verify eligibility and disburse benefits.

Federally Provided Family and Medical Leave—Benefits

Eligible workers would receive benefits equal to a share of their pre-leave earnings, subject to a maximum amount. That share would be smaller for workers with higher earnings. Benefits would be paid by the federal government.

Claimants could receive benefits for up to four weeks per year.

Workers who currently have access to unpaid leave under FMLA or state laws would continue to have job protections as leave claimants.

How Existing Paid Family and Medical Leave Programs Would Be Affected

States would have the option to continue to administer their own programs as long as the benefits they provided were at least as generous as those provided by the federal government. Each state that opted to continue its own program would receive federal grants equal to what the federal government would have spent in that state under the program.

Employers currently offering short-term disability plans or paid family leave benefits would also have the option to continue to do so. Those employers could receive reimbursement equal to a portion of what the federal government would have spent for those employees. To be eligible for reimbursement, employers would need to offer benefits at least as generous as those offered by the federal program.

How Employers Would Respond

CBO expects that most employers who currently offer paid family and medical leave would ultimately provide fewer weeks of leave and less pay during leave. As a result, most employees who currently have access to employer-provided benefits would rely on either the state programs or the federal program for the weeks in which they would be eligible for state or federal benefits.

Some employers who currently offer paid family and medical leave might provide additional payments during the weeks that workers receive benefits from the federal program or additional weeks of benefit beyond those provided by the federal program.

To retain existing employees and attract new employees, employers would probably need to increase earnings or other benefits to offset some of the decline in employees' total compensation. (That is because most employers currently offering paid family and medical leave would probably reduce the amount of paid leave they provided if the federal government provided it instead.)

How Workers Would Respond

Some workers with qualifying life events would take more paid leave.

- Some who would have taken unpaid leave would take paid leave.
- Some who would not have taken leave would opt to take paid leave.
- Workers' willingness to take paid leave would depend in part on the generosity of benefits and the extent to which they were protected from losing their job after taking leave.

The share of eligible workers taking paid leave would differ by age, sex, and qualifying life event. It would also be affected in the following ways:

- The share would increase with time as workers learned about the new benefit.
- The share would probably be larger under the program than the share observed among existing state programs because federal benefits would probably be better publicized.[5]

[5] CBO estimates the share of workers who would take paid leave primarily using survey data on the rate at which workers experience qualifying life events and on the amount of leave they report taking, as well as information from existing state programs on the likelihood of employees' taking paid leave.

Potential Effects on Employment and Earnings in the Short Term

The program's short-term effects on employment would depend on employees' eligibility.

- Among eligible workers, hours worked would initially fall because workers would be more likely to take leave.
- Among workers who would otherwise be ineligible, hours worked could increase because some people would increase employment to meet the work-history requirement for paid leave benefits.

Employers currently providing leave benefits would probably pass on some of the value of benefits under the program to workers in the form of higher earnings.

Total income (or earnings plus leave benefits) would increase for workers who currently take unpaid leave. However, income could fall for some workers. For example, for workers who would not otherwise have taken leave, income would decrease if they took paid leave under the program because federal leave benefits would be less than their income would have been during the period of leave.

Having access to paid family and medical leave provided by the federal government would affect lower-earning workers more than their higher-earning counterparts because higher-earning workers currently have access to more generous leave benefits.

Potential Effects on Employment and Earnings in the Longer Term

Periods of leave could affect long-term employment and earnings in two opposing ways. Whether the net effect would be positive or negative is unclear, and the magnitude would probably be small.

- Employment and earnings could be higher because paid leave would induce some workers to remain with their current employers rather than quit, which would preserve employer-specific human capital (that is, the job-specific training an employer provides to a worker). The value of that investment would be lost if the worker quit.

- However, employment and earnings could be lower for workers who take longer leave than they would have under current policies because their attachment to the labor market would decrease and because they would accrue less work experience.

Employment and earnings could also be higher because having access to paid family and medical leave could improve physical and mental health for some workers, including the following groups:

- Those who would have continued working despite medical needs under current laws, and

- Mothers who would have returned to work sooner after giving birth under current laws.

About This Document

This document was prepared to enhance the transparency of the Congressional Budget Office’s work and to encourage external review of that work. In keeping with CBO’s mandate to provide objective, impartial analysis, the document makes no recommendations.

William Carrington and Brooks Pierce prepared the document with assistance from Elizabeth Ash and guidance from Xiaotong Niu and Julie Topoleski. Comments were provided by Damir Cosic, Molly Dahl, Elizabeth Cove Delisle, Sebastien Gay, Theresa Gullo, John McClelland, Noah Meyerson, Jaeger Nelson, Sam Papenfuss, Emily Stern, Jordan Trinh, and Jeffrey Werling (all of CBO), as well as Martha Bailey (University of California, Los Angeles), Maya Rossin-Slater (Stanford University), Christopher Ruhm (University of Virginia), and participants in the November 2021 meeting of CBO’s Panel of Economic Advisers. The assistance of external reviewers implies no responsibility for the final product; that responsibility rests solely with CBO.

Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the document. Caitlin Verboon edited it and prepared the text for publication. The document is available on CBO’s website at www.cbo.gov/publication/57631.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.