Implications of allowing U.S. employers to opt out of a payroll-tax-financed paid leave program

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Abstract

In recent years, policymakers have become increasingly focused on creating a national paid family and medical leave program. Understanding how a national program would affect workers, firms, and the U.S. economy overall is of paramount importance. The answer depends greatly on the specifics of the ultimate design—including funding schemes, such as a payroll tax versus general revenue, benefit levels, job protection, and more.

This report addresses one aspect of design: In the context of a payroll-tax-funded program, should employers be allowed to opt out if they provide workers with private benefits at least as generous as the national mandate? The findings of this analysis are useful for researchers interested in studying the economic forces that affect employers' decisions on opting out of a national paid leave program and the implications of those decisions for the broader program.

Using insights from classic economic theory, the report proposes a conceptual framework for predicting which employers would tend to opt out of a national program. Applying the framework to the heuristic example of temporary disability insurance for unanticipated medical conditions, the analysis illustrates conditions under which employers may choose to opt out of the public paid leave program. Absent significant administrative barriers to opting out, the framework predicts that employers offer private plans when they can provide the same level of benefits at a lower cost than the government program.

More specifically, if the costs to employers are directly linked to the propensity of employees to claim benefits, then employers with low-cost workers are predicted to leave the system, initiating a cycle that, at the extreme, could lead to the slow unraveling of the public program. Several factors complicate the application of this framework to real-world comprehensive paid family and medical leave programs, presenting a puzzle for researchers that is as interesting as it is complex.

Indeed, existing state paid leave systems have not experienced such an unraveling, which potentially suggests that other economic forces are at play than those predicted under classic economic theory or that the state experiences have limited predictive value. More research is needed on the basic economic forces driving low employer provision of paid family and medical leave.

Researchers with access to state administrative records can start to advance the conversation by assessing the demographic characteristics of workers who claim benefits and identifying how these characteristics are distributed across firms. Additionally, future analysis of partially privatized paid family and medical leave would greatly benefit from a better understanding of the commercial insurance market. This line of research could explore whether collaboration with private industry groups is a fruitful avenue for sharing data and expertise.

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