



Statement before the Senate Committee on Finance
Subcommittee on Social Security, Pensions, and Family Policy

Examining the Importance of Paid Family Leave to American Working Families

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Chairman Cassidy, Ranking Member Brown, and Members of the Committee. Thank you for the opportunity to discuss the importance of paid parental leave and how it might be provided in an affordable way via the Social Security program.

Today I wish to make four main points:

1. Paid parental leave can provide important health and educational benefits to children while enabling mothers to remain attached to their prior jobs, which can increase earnings substantially once the mother returns to work.
2. However, proposals to provide paid parental leave financed by employers, workers or the government each have potential disadvantages.
3. An alternate approach would allow new parents to claim a temporary Social Security benefit. To offset the cost of these benefits, parental leave beneficiaries would agree to a reduction in the value of their future Social Security retirement benefits, such as via an increase in their normal retirement age.
4. While every proposal has pros and cons, the Social Security parental leave proposal survives a number of objections raised against it. This idea deserves consideration by Congress as a way to help new parents devote additional time to their newborn children at a crucial stage of their children's lives.

The Benefits of Paid Parental Leave

The United States is one of relatively few countries that fail to provide paid leave for new parents, which is unusual given that U.S. policymakers of both parties have traditionally shown concern both for family and for workforce issues.

Public opinion surveys indicate that Americans favor paid parental leave.¹ More importantly, research indicates that Americans may be right to do so. Evidence suggests that when parents are offered paid leave, their children's health and upbringing benefit and mothers return to work with higher earnings.

For instance, when Norway expanded its paid leave program in 1977, high school graduation rates increased by 2% and children's earnings at age 30 rose by 5%. For children of less-educated mothers,

¹ Horowitz, Juliana, Kim Parker, Nikki Graf and Gretchen Livingston. "Americans Widely Support Paid Family and Medical Leave, but Differ Over Specific Policies." Pew Research Center. March 23, 2017.

those gains were nearly twice as large.²

Likewise, by keeping new mothers connected with their previous jobs, women are able to retain seniority and job-specific skills. One study analyzing paid leave in New Jersey found that women who took leave were more likely to be working and less likely to depend upon public assistance one year following childbirth.³ California's paid leave program appears to have increased new mothers' work hours by 10 to 17 percent in the three years following childbirth.⁴ Other research using a different dataset found similar earnings increases for post-childbirth women in California.⁵ Recent research has confirmed that disruption of female employment at the time of childbirth is a major driver of the "gender pay gap."⁶ Improvements to female earnings in line with those found in California would close much of that gap. These benefits help explain why a bipartisan coalition of analysts gathered by the American Enterprise Institute and the Brookings Institution have called paid parental leave "an issue whose time has come."⁷

A Proposal to Fund Paid Leave through Social Security

Paid leave must be funded somehow, but several existing approaches have downsides. Many Americans are reluctant to fund paid leave with a new payroll tax of 0.4% of their wages, as proposed in the FAMILY Act. Likewise, evidence indicates that if employers are mandated to provide paid leave, they will likely offset the costs by reducing wages or avoiding hiring women of child-bearing age.⁸ Finally, it is difficult for young workers to save to provide leave for themselves, given their low earnings, student

² Carneiro, Pedro, Katrine V. Løken, and Kjell G. Salvanes. "A flying start? Maternity leave benefits and long-run outcomes of children." *Journal of Political Economy* 123, no. 2 (2015): 365-412.

³ Houser, Linda, and Thomas Paul Vartanian. "Pay matters: The positive economic impacts of paid family leave for families, businesses and the public." Rutgers Center for Women and Work, 2012.

⁴ Rossin-Slater, Maya, Christopher J. Ruhm, and Jane Waldfogel. "The effects of California's paid family leave program on mothers' leave-taking and subsequent labor market outcomes." *Journal of Policy Analysis and Management* 32, no. 2 (2013): 224-245.

⁵ Baum, Charles L., and Christopher J. Ruhm. "The effects of paid family leave in California on labor market outcomes." *Journal of Policy Analysis and Management* 35, no. 2 (2016): 333-356.

⁶ Chung, Yoonkyung, Barbara Downs, Danielle H. Sandler, and Robert Sienkiewicz. "The Parental Gender Earnings Gap in the United States." U.S. Census Bureau. No. 17-68. 2017.

⁷ AEI-Brookings Working Group on Paid Family Leave. "Paid Family and Medical Leave: An Issue Whose Time Has Come." American Enterprise Institute. June 6, 2017.

⁸ Gruber, Jonathan. "The incidence of mandated maternity benefits." *The American Economic Review* (1994): 622-641.

loans and the often-short time between entering the workforce and having children.

Kristin Shapiro, Washington, D.C. lawyer, and I considered an alternate approach in a joint *Wall Street Journal* op-ed and in a fuller treatment written by Shapiro and published by the Independent Women's Forum, a Washington think tank that focuses on women's issues.⁹

Shapiro and I argued for a parental leave benefit provided via the Social Security program. New parents could claim a temporary Social Security benefit, but in return must accept a slightly higher retirement age or other reduction to their future retirement benefits. The size of this retirement benefit offset would be set so that any parental leave payments received early in life would be repaid, with interest, over the course of an individual's retirement. The specifics depend upon a number of variables, such as how to ensure that benefits received by individuals who either die or claim Disability Insurance benefits prior to retirement are repaid.

Based on a simulation by the Urban Institute, Social Security-based parental leave benefits would replace about 59 percent of prior earnings for the median new mother claiming benefits, while a lower-income woman could expect a replacement rate of about 69 percent.¹⁰ In return for 12 weeks of paid leave benefits, beneficiaries would have to accept an increase in the Normal Retirement Age of about 25 weeks. This retirement age increase does not affect the age at which a person may claim Social Security retirement benefits. Rather, it simply implies a lower benefit, of about 3.2 percent, at whatever age the individual retires.

Concerns with Social Security Paid Leave Proposal

The proposal for Social Security-based paid leave has generated significant interest. At the same time, a number of understandable concerns have been raised. Here I address several of those concerns.

Effects on women's retirement benefits

Some have raised the concern that any increase in the retirement age or other reduction to retirement

⁹ Shapiro, Kristin A. and Andrew G. Biggs. "A Simple Plan for Parental Leave." *The Wall Street Journal*. January 24, 2018. Kristin A. Shapiro. "A Budget-Neutral Approach to Parental Leave." *Independent Women's Forum*. January 9 2018.

¹⁰ Favreault, Melissa M. and Richard W. Johnson. "Paying for Parental Leave with Future Social Security Benefits." *The Urban Institute*, April 2018.

benefits would endanger the retirement income security of women who claim parental leave benefits. This concern is understandable: women have lower earnings and savings than men.

However, two points are worth raising. First, retirement savings and retirement incomes for women have increased significantly in recent decades as female labor force participation has risen. A 2016 Census Bureau study found that from 1984 to 2007, the percentage of newly-retired women receiving private retirement plan benefits doubled. The median household income for women aged 65 to 69 rose by 58% above inflation from 1989 through 2007.¹¹ That's a far greater increase than for working-age individuals of either gender. So I would not rush to the conclusion that most women (or men, for that matter) live at significant risk of an inadequate retirement income.

Second, paid parental leave can lead to higher labor force participation and earnings once a mother chooses to return to the workforce. Higher earnings would lead to higher Social Security benefits, offsetting part or all of the benefit reduction associated with an increased retirement age.

For a low-income woman, the 10 to 17 percent higher post-childbirth earnings found in California would lead to 5 to 9 percent higher net Social Security retirement benefits, even after the retirement age increase used to pay back the parental leave benefit. A middle-income woman could be expected to roughly break even after the effects of higher post-childbirth incomes and the retirement benefit offset are netted out.

Moreover, to the degree that paid parental leave increases post-childbirth labor force participation and earnings, personal savings such as those via 401(k) plans could also be expected to increase. Thus, paid parental leave could improve retirement income security for vulnerable women who claim it.

Effects on Social Security Financing

Social Security already has a significant funding shortfall, so policymakers would rightly be concerned that a paid parental leave plan would make matters worse.

The Social Security paid leave proposal is designed so that, over an individual's full lifetime, the offset to future retirement benefits will fully pay back, with interest, the value of parental leave benefits received

¹¹ Bee, C. Adam, and Joshua Mitchell. The Hidden Resources of Women Working Longer: Evidence from Linked Survey-Administrative Data. No. w22970. National Bureau of Economic Research, 2016.

after the birth of a child. Thus, on a person-for-person basis the proposal is revenue-neutral over the long-term.

One of the ways the Social Security actuaries calculated the program's unfunded liabilities is on a "closed group" basis. This method measures taxes and benefits for all individuals currently participating in Social Security, either as taxpayers or beneficiaries, and extends that measurement over those participants' full lifetimes. The closed group measure would not show an increase in Social Security's unfunded obligation, assuming the plan's parameters are set appropriately.

To the degree that paid parental leave caused women to increase their earnings later in life, Social Security's closed group unfunded liability would decline very slightly. This is because higher earnings lead to a higher dollar value of future retirement benefits, which would cause the present value of the retirement benefit offset to exceed the present value of the parental leave benefit received earlier in life.

Since Social Security is a pay-as-you-go program, some may be interested in how a paid parental leave benefit would affect the program's costs on an annual basis. Based on figures produced by the Urban Institute, by the fifth year following implementation annual benefit costs net of retirement benefit offsets would increase by about 0.7 percent. This net cost would peak in 2045 at a 1.15 percent increase, falling to zero by 2063. By 2080 annual Social Security benefit costs would be about 2.1 percent lower because the value of retirement benefit offsets would exceed the value of parental leave benefits paid out in that year.

Social Security's funding shortfalls are significant and Congress should address them as soon as possible. However, the costs of a paid leave program paid through Social Security are trivial relative to the trillion dollar-plus annual outlays of the federal government's largest single spending program.

Why should the government be involved at all?

Paid parental leave is an employer benefit, and employers across the country willingly provide a range of benefits as a means to attract and retain employees. Many workers already have parental leave benefits provided by their employer. Why is a government program needed at all?

For many larger employers, a government program is not needed. However, for small employers, the self-employed and gig-economy workers, the Social Security-based paid leave program could be very

helpful. A small employer or start-up may be challenged providing even the basic employer benefits such as health care, a 401(k) or employer-paid payroll and unemployment insurance taxes. While such employers may wish to offer paid leave as a way to attract and retain employees of child-bearing age they may not be able to afford to do so. This could make it impossible for these businesses to attract employees of child-bearing age, and may make it impossible for such employees to choose to work at a small business or start-up rather than a large employer.

To be clear, the Social Security-base proposal does not pay for benefits outright. Employees who choose a temporary paid leave benefit must accept a higher retirement age or other offset to their future retirement benefits. But the Social Security proposal allows individuals to take parental leave even if they are not employed by a business that can afford to offer such a benefit.

Why provide parental leave benefits through Social Security?

The need to take a short period out of the workforce following the birth of a child can be thought of as a temporary disability, a period in which it is difficult – or at least undesirable – for a new parent to work. A number of OECD countries, as well as several U.S. states, provide parental leave benefits on this basis. Social Security already has a disability benefit formula that provides a progressive replacement of previous earnings, such that low earners receive a higher “replacement rate” than higher earners. Piggybacking a parental leave benefit on the Social Security disability insurance formula simplifies the development of this benefit policy.

Likewise, SSA has the administrative structure to handle a paid leave benefit at lower cost than establishing a new agency. Applications could be made through SSA’s website and SSA’s field and phone staff are already familiar with the Social Security benefit formula, implying that fewer additional staff and less training would be needed.