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Memorandum

To: Steve Klein, Legislative Joint Fiscal Office
From: Tom Kavet
CC: Nathan Lavery, Joint Fiscal Office
Date: March 25, 2014
Re: Mandatory Paid Sick Leave (S.255) Economic Review

OVERVIEW

This analysis provides initial estimates of the costs and benefits of mandatory paid sick leave, as proposed in S.255 and related legislation. The proposed legislation applies to all Vermont jobs, full and part-time, with mandatory paid leave for illness and family care accrued at the rate of 1 hour of paid leave for every 30 hours worked, with an annual requirement of no more than 56 hours of paid leave.

The estimates herein are provisional, pending the processing of additional unpublished data so as to more precisely estimate ranges for both costs and benefits, and statutory variations in proposed legislation that are still being considered as of this writing. As final statutory provisions are made and/or new data become available, these estimates may be revised and updated.

BACKGROUND

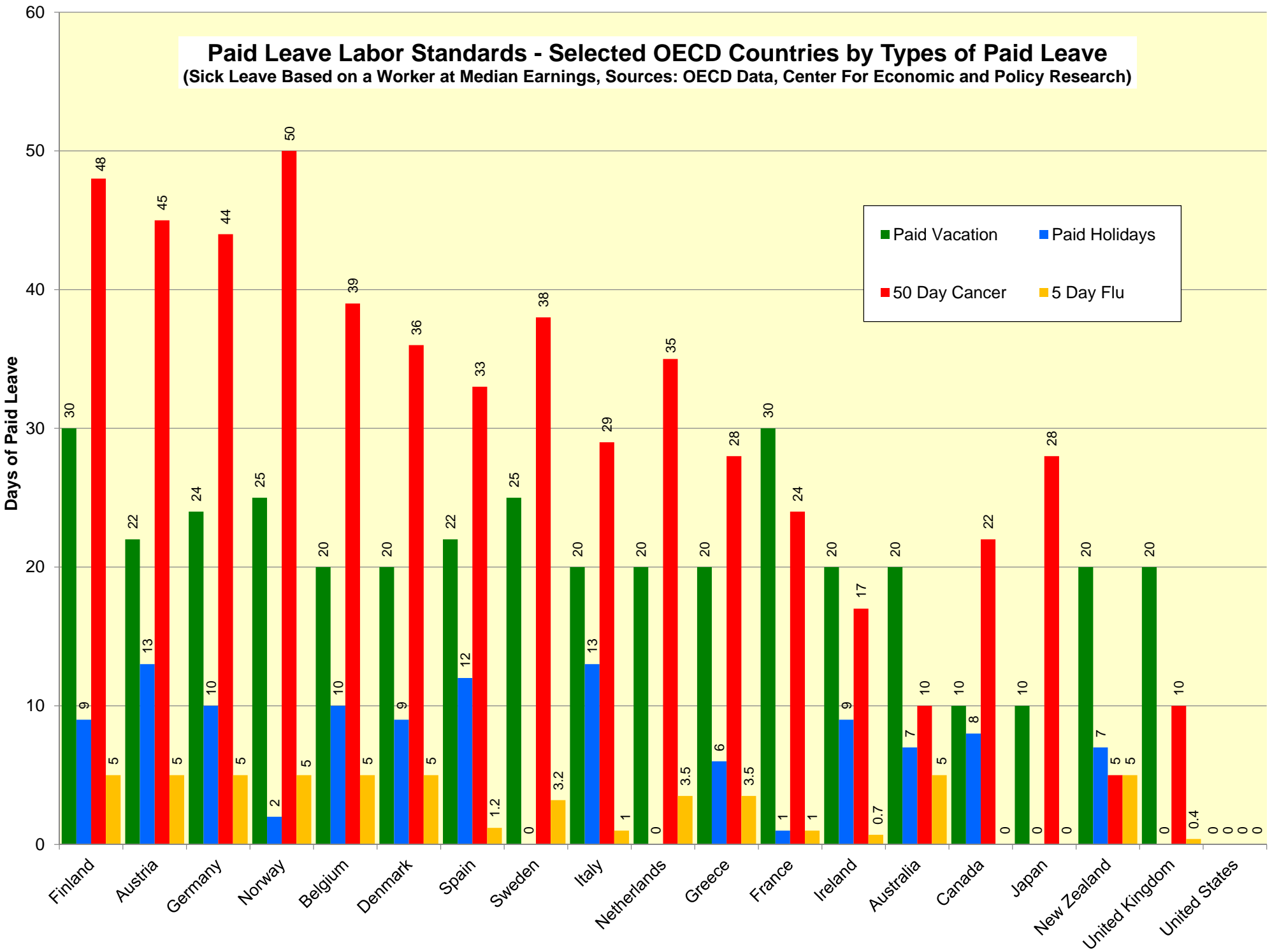
Paid sick leave and related general paid leave is a legislated employee benefit and basic labor standard in most developed countries except the United States (see chart on following page). For the most part, U.S. federal and state governments have left issues of paid leave to the discretion of employers.

Although detailed state-level data on the incidence of paid leave does not exist, we estimate that approximately three-quarters of all Vermont jobs offer paid leave of some kind (vacation, holidays, sick leave, bereavement, personal, consolidated leave, etc.).¹ The incidence of paid leave of any kind is relevant because employers

¹ Based on data from the U.S. Bureau of Labor Statistics, National Compensation Survey, USDL-13-1344, March 2013, Table 6, page 17, and weighted data from the Vermont Department of Labor Fringe Benefit Surveys for 2011 and 2013.

Paid Leave Labor Standards - Selected OECD Countries by Types of Paid Leave

(Sick Leave Based on a Worker at Median Earnings, Sources: OECD Data, Center For Economic and Policy Research)



who now offer any paid leave can recharacterize such leave for use in the event of illness and family healthcare per the proposed legislation, as long as it meets the accrual and application provisions stipulated in the legislation.

Of those jobs not offering any paid leave, we estimate that more than half (about 54%) are part-time jobs. These jobs also tend to be lower paying jobs, with only about 40% of the workers in the lowest decile of wage earners having access to paid leave, versus about 90% of workers in the top 25% of the wage spectrum.²

Among occupations, Food Preparation and Serving represents the occupation with the largest number of workers without paid leave (17% of all workers), with Sales (12%) and Office and Administrative (12%) occupations next. These three occupations, along with Construction (7%), Education (7%), Transportation (7%) and Personal Care Services (7%), represent nearly 70% of all workers without paid leave.³

The occupations with the highest share of workers with unpaid leave include Farming and Forestry (83%), Food Preparation and Serving (60%) and Personal Care Services (45%). The chart on the following page illustrates the size of each occupational category by the number of uncovered jobs (size of circle), its share of the total number of jobs without paid leave (x-axis), and the share of jobs within each occupation that do not have paid leave (y-axis). As illustrated in the chart, the occupational category that stands out in terms of all three metrics is Food Preparation and Serving. This occupational concentration is significant in terms of the heightened potential for disease transmission from this type of work.

THE COST OF EXTENDING PAID SICK LEAVE IN VERMONT

Despite the diverse array of government and other surveys that address various aspects of the incidence, cost and usage of sick and other paid leave, both cost and benefit estimates associated with this legislation have fairly wide plausible ranges.

The analysis herein is reliant upon Vermont-specific data derived from unpublished microdata from the Current Population Survey, which requires customized data processing and, in many cases, the use of multiple times periods in order to obtain adequate sample sizes for performing meaningful analyses. We have used subsets

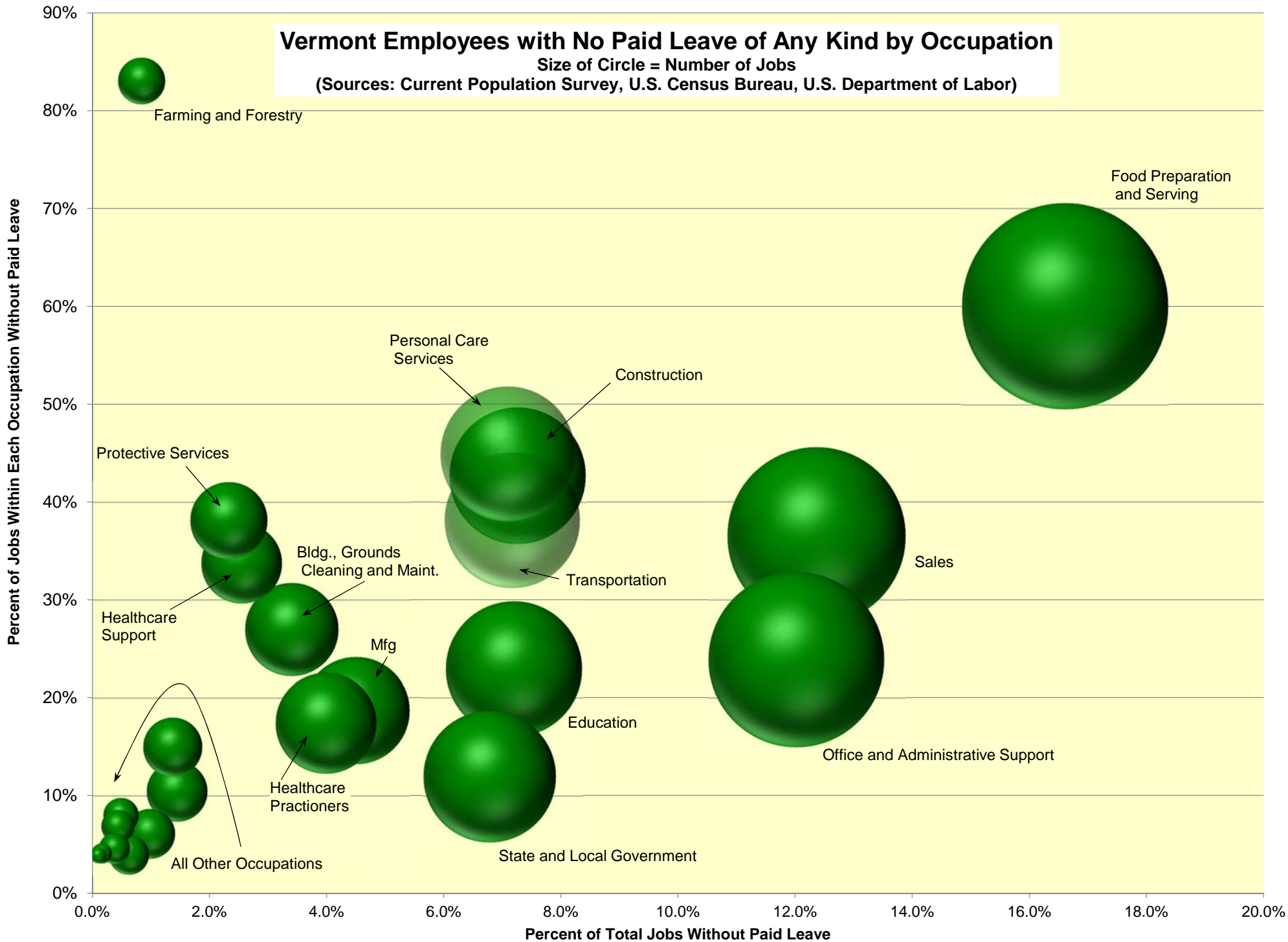
² Based on data from the U.S. Bureau of Labor Statistics, National Compensation Survey, USDL-13-1344, March 2013, Table 6, page 16.

³ Based on Current Population Survey microdata for Vermont; Vermont Department of Labor Occupational Employment Survey for 2012; and, Institute for Women's Policy Research analysis of the 2011 American Community Survey; the 2010 National Compensation Survey; the 2010 Current Population Survey Displaced Worker, Employee Tenure and Occupational Mobility Supplement File; and the 2009-2012 Current Population Survey Annual Social and Economic Supplement.

Vermont Employees with No Paid Leave of Any Kind by Occupation

Size of Circle = Number of Jobs

(Sources: Current Population Survey, U.S. Census Bureau, U.S. Department of Labor)



of these data to estimate paid leave coverage by occupation, average hours worked and full-time and part-time employment.

Although other local information is collected periodically through the Vermont Department of Labor Fringe Benefit Studies, the surveys underlying these studies are not designed to provide estimates of either the total number of workers, jobs or even firms that offer paid leave. Although useful in understanding variations in employer benefits offered by size of firm and other specific attributes of offered benefits, the surveys are careful not to draw conclusions regarding estimates of the number of covered workers or costs associated with coverage.

The estimates herein also rely on national and regional data collected by the U.S. Bureau of Labor Statistics via the National Compensation Survey, which provides data on paid leave costs and the incidence of paid leave by average wage, region, occupation and type of work (full-time vs. part-time), customized data aggregations by the Vermont Department of Labor using the 2012 Vermont Occupational Employment Survey, which provided job counts by wage, occupation and industry, and the U.S. Department of Health and Human Services, National Health Interview Survey (NHIS), for data on sick leave utilization and incidence of illness.

Utilizing these various data sources, we estimate the total likely cost of extending sick leave coverage to all Vermont workers to be approximately \$17 million, with a range of possible costs between about \$9.4 million and \$21.7 million. This assumes full annual paid leave accrual of 1/30 of all hours worked for uncovered part-time workers and approximately 82% accrual of all hours worked by full-time workers, due to the 56 hour program cap. It assumes an average hourly wage for affected workers at \$13.74 per hour, reflecting the preponderance of unpaid leave among lower wage employees and occupations.⁴ It also assumes annual utilization of available sick leave days at approximately 3.3 days⁵ and assumes that among firms who currently do not offer any formal paid leave, that at least 10% of them actually provide paid leave on a case by case basis that equals or exceeds an average of 3.3 days per employee per year. Both the 2011 Vermont Fringe Benefit Study and other anecdotal information suggest that this occurs at prevalence rates at least as high as

⁴ Based on data from the U.S. Bureau of Labor Statistics, National Compensation Survey, and customized runs from the Vermont Department of Labor 2012 Occupational Employment Survey by wage category.

⁵ This is the average utilization of sick days by covered workers based on three sources: "Vital and Health Statistics Series 10, Number 260 - Summary Health Statistics for U.S. Adults: National Health Interview Survey," 2012 Data from the National Health Interview Survey U.S. Dept. of Health and Human Services, Centers for Disease Control and Prevention National Center for Health Statistics, page 28; "Issue Brief, Health and Productivity Among U.S. Workers," by Karen Davis, Sara R. Collins, Michelle M. Doty, Alice Ho, and Alyssa L. Holmgren, The Commonwealth Fund Biennial Health Insurance Survey (2003), August 2005, page 6; and, "San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees," by Robert Drago, Ph.D. and Vicky Lovell, Ph.D., Institute for Women's Policy Research, pages 8-9.

10%, and perhaps much higher, though precise incidence statistics are unavailable at this time.⁶

THE BENEFITS OF EXTENDING PAID SICK LEAVE IN VERMONT

As difficult as paid sick leave costs are to estimate, monetary quantification of the benefits are even more uncertain. The primary benefits can be related to the following:

- **Reduced employee turnover:** There is substantial evidence that the provision of paid sick leave reduces voluntary turnover, especially among the lower paying jobs where coverage rates are lowest.⁷ Depending upon assumptions made regarding wages, numbers of affected workers and turnover rate reductions, savings could conservatively total \$15 million.⁸
- **Costs of productivity losses as a result of payment to ill workers who underperform while on the job:** This is a current employer expense, caused by employees who feel compelled to show up at work when ill due to lack of paid sick leave but whose productivity is significantly impaired by their illness. While difficult to estimate, conservative estimates could exceed \$1 million per year in Vermont.⁹
- **Reduced spread of contagious diseases:** This represents both an additional employer expense and public health expense, affecting all segments of the population – children, workers and the elderly. It is especially

⁶ In the 2011 Vermont Department of Labor Fringe Benefit Survey included a comment section in which some firms who had indicated they offered no paid leave did, in fact, provide paid leave on a “negotiated as need arises” or “negotiated as needed” basis. In a Vermont Public Radio, Vermont Edition interview aired on February 7, 2014, Cathy Davis, Vice President of the Lake Champlain Regional Chamber of Commerce asserted that this is a widespread practice in Vermont. In speaking about the prevalence of paid sick leave, even among smaller firms without formal provisions for such leave, she stated that, “We think Vermont employers are doing this...the smaller the employer, the more likely they are to maybe have a more ad hoc program...What we’ve heard from a lot of the testimony from employers is that they offer this benefit.” She cited the testimony of an employer who did not offer formal paid leave, but granted extensive paid leave to two employees who had family members dealing with cancer. She added, “So, I think [employers] are making these accommodations for employees when they’re needed, and they’re offering benefits, it’s just that they might not be at the level required by this legislation.” If Ms. Davis’ characterization of the incidence of negotiated paid leave is accurate, and firms without paid leave policies are, in practice, offering even 50% of the leave required by the subject legislation, it would reduce the cost to employers estimated herein by about \$7.5 million.

⁷ See Philip F. Cooper and Alan C Monheit, “Does Employment-Related Health Insurance Inhibit Job Mobility?”, *Inquiry* 30 (Winter), pages 400-416, 1993.

⁸ The most comprehensive benefit valuation estimates have been developed for Briefing Papers and related background analyses from the Institute for Women’s Policy Research, and, specific to Vermont, IWPR #B320, “Valuing Good Health in Vermont,” April 2013. Although this is an advocacy organization, they have provided unpublished source data for our independent review and we have found it to be generally well-researched and credible.

⁹ See: “Issue Brief, Health and Productivity Among U.S. Workers,” by Karen Davis, Sara R. Collins, Michelle M. Doty, Alice Ho, and Alyssa L. Holmgren, The Commonwealth Fund Biennial Health Insurance Survey (2003), August 2005.

significant given the high number of uncovered workers in the food preparation and serving industry, where more than 12,000 Vermont jobs are estimated to be without sick leave. The cost savings may vary from year to year, subject to outbreaks of communicable diseases, but estimates of potential savings to Vermont of at least \$1 million per year appear to be reasonable.¹⁰

- **Reduced emergency room use:** This is primarily a public health expense reduction, as preventative and early-onset care during regular doctors' working hours minimizes emergency room visitation. Data from the U.S. Department of Health and Human Services, National Health Interview Survey indicates that workers with paid leave for healthcare are less likely to use emergency room services than those without such leave. Applying national data to relevant Vermont metrics suggests savings could be as high as \$5 million per year, with savings shared in roughly equal measure by private entities and public insurers.¹¹
- **Other health related benefits include reduced length of illnesses and the reduced incidence of illnesses:** Although difficult to measure, additional economic and societal benefits are likely to be derived from better preventative healthcare and early disease diagnoses and treatment.

While difficult to measure, with public and private savings that could easily total \$20 million or more, the value of the above benefits are likely to be of comparable magnitude to the employer costs estimated herein. Benefits that accrue to employers alone could plausibly equal or exceed their costs. Thus, net economic costs or benefits to this legislation are likely to be negligible.

SUMMARY

Given the relatively minor aggregate net economic cost or benefit associated with this measure, this issue is primarily one of societal and labor standards, not economics. Without significant net economic impacts, either positive or negative, the proposed statute is properly viewed as a basic labor standard to be legislatively determined, consistent with core State cultural norms and values.

¹⁰ See: Briefing Paper and related background analysis from the Institute for Women's Policy Research, IWPR #B320, "Valuing Good Health in Vermont," April 2013, pages 11-14.

¹¹ *Ibid.*, pages 14-15.