

**Testimony of Tanya Byker, Assistant Professor of Economics, Middlebury College
Senate Committee on Economic Development, Housing and General Affairs
April 25, 2019**

RE: H.107, An act relating to paid family and medical leave

Good morning. My name is Tanya Byker and I am an assistant professor of economics at Middlebury College in Middlebury, Vermont. My research and teaching focus on the interrelated choices households make about education, work and parenthood. I have published work in the American Economic review about the short-term labor-market impact of California's Paid Family Leave Act and was recently a recipient along with coauthors of grants from the National Science Foundation and the Washington Center for Equitable Growth to study the long-term impacts of the CA policy which has now been in place for more than a decade. I am pleased today to speak about the current inequality in access to paid family leave and the way that H.107 addresses these inequalities. I will also raise concerns about proposals to alter the bill to make implementation voluntary.

Background about working families in Vermont:

Female labor force participation has increased dramatically in Vermont over the last century, with the steepest increases occurring since the 1960s, followed by a leveling off around 80% during the 1990s.¹ From 2009 to 2018 women made up 49% of the Vermont labor force.² You may be familiar with these trends in Vermont and at a national level, but it is less well known that this dramatic increase in female labor-force participation was driven in large part by increased participation among women in their 20s, 30s and 40s and specifically women with young children. We no longer live in a state with the historically traditional family structure of one adult, usually a man, working outside of the home and one adult, usually a woman, engaging exclusively in the care work involved with children and/or aging parents. Most mothers (and parents in general) must now manage both employment and family care at the same time. Historically, paid family leave may not have been a pressing policy concern; that is no longer the case today.

Labor-force participation in VT, by gender



Notes: Labor-force participation rate for individuals aged 18-65. Author's calculations based on the US Decennial Census (1910-2000), American Community Survey (2010-2017). 2010* gives the average from 2000-2010 and 2017* the average 2011-2017.

¹ US Decennial Census (1910-2000), American Community Survey (2010-2017) IPUMS USA, University of Minnesota, www.ipums.org.

² Current Population Survey. IPUMS-CPS, University of Minnesota, www.ipums.org.

Ways that H.107 addresses inequality in access to paid family and medical leave:

Studies have shown that the California and New Jersey paid family leave policies increased leave taking among lower-wage women.⁴ But take-up for these workers has remained well below that of higher wage workers.⁵ In surveys, low-wage workers in NJ⁶ and CA⁷ state that lack of job protection and insufficient wage replacement are barriers to taking the paid leave they are legally entitled to — they are paying into a paid leave fund they do not feel they can afford to take advantage of. In California and New Jersey, job protection primarily comes from federal FMLA and low-wage workers disproportionately work at smaller firms, are more likely to work part time and have higher turnover, making them less likely to be eligible for FMLA.⁸ H.107 addresses these specific issues directly. First, the bill joins only Massachusetts and New York in linking job protection to paid leave with the "right to reinstatement in the first available suitable job." Next H.107 joins only the Washington State law in providing nearly full wage replacement to lower-income workers. A sliding scale whereby replacement rates decrease for workers above the Vermont livable wage allows the proposal to increase access to leave for workers across the income distribution at a lower cost.

Concerns about the effectiveness of Voluntary Family Medical Leave Insurance:

The issue of adverse selection, and escalating premiums that you may be familiar with from the health insurance market could be particularly extreme in the case of a voluntary insurance plan for paid family and medical leave.

To clarify concepts, consider a very simple example of an insurance market with 100% participation and a single premium level that applies to all individuals. An insurance company knows that people have different risk levels— ex. low, medium and high. The insurance company is a business and its goal is to make, not lose, money so it uses its overall assessment of risk to determine a premium for the policy that will **on average** allow it to avoid losing money. People who buy insurance also think about what makes economic sense, and importantly, they usually know quite a bit about their level of risk. The problem is that if the insurance program becomes voluntary, people who know they have low risk find the policy that was fair on average to be too expensive to be worth it and pass, while the high-risk people see the policy as a good deal and buy it. But the insurance company based its original calculations on everyone buying the policy so that, on average, the low and high risk folks would have health events that balanced each other out. But now that the plan is voluntary, the insurance company will need to reassess the situation because the group of people who **selected** the policy do **not** look like the average population and now the insurance company is in a money-losing situation.

⁴ Rossin-Slater M, Ruhm CI, Waldfogel J. The Effects of California's Paid Family Leave Program on Mothers' Leave-Taking and Subsequent Labor Market Outcomes: The Effects of California's PFL Program. *Journal of Policy Analysis and Management*. 2013 Mar;32(2):224-45; Byker TS. Paid Parental Leave Laws in the United States: Does Short-Duration Leave Affect Women's Labor-Force Attachment? *American Economic Review*. 2016 May;106(5):242-6.

⁵ Bedard K, Rossin-Slater M. The Economic and Social Impacts of Paid Family Leave in California: Report for the California Employment Development. 2016

⁶ Setty S, Skinner C, Wilson-Simmons R. Protecting Workers, Nurturing Families: Building an Inclusive Family Leave Insurance Program. National Center for Children in Poverty, Mailman School of Public Health, Columbia University. 2016.
http://finccp.orepublications/pdf/text_1152.pdf

⁷ Appelbaum E, Milkman R. Leaves That Pay: Employer and Worker Experiences With Paid Family Leave in California. Washington, D.C. Center for Economic Policy and Research. 2011.

⁸ Klerman J, Kaley K, Pozniak A. Family and Medical Leave in 2012: Technical Report. Abt Associates. 2012.
<https://www.dol.gov/asp/evaluation/fmla/fmla-2012-technical-report.pdf>

- Given that insurers know that the plan is voluntary from the start, premiums will likely start high. The proposal currently states that all VT (and NH) state employees will be automatically enrolled in the plan in order to increase the risk pool. But state employees make up less than 5% of all employees in VT.¹¹ Will this be enough to keep rates affordable? If the premiums of state employees are paid by the state, it is important to think about that cost to tax payers and the sources of funding and how these costs might increase over time.
- What are the risks of tying the insurance pool to NH's state workers as proposed in the Scott/Sununu plan? What if a similar bill does not pass in NH or is amended in the future?
- How will insurance companies be allowed to price premiums? In other states with paid leave, women are 2 (CA) to 7 (NJ) times more likely to take bonding leave than men and 2 (CA) to 3 (NJ) times more likely to take paid leave to care for sick family members. Insurers could potentially keep premiums down for some groups by charging different rates by gender. Is this an acceptable outcome? Similar questions could be raised about preexisting conditions for own health or the health of family members. Would people with parents over a certain age be offered higher premiums? Is this desirable? If not, how will this affect overall rates under a voluntary plan?

Bottom Line:

H.107 is more likely to provide benefits to more workers across the income distribution at a lower cost per recipient than a voluntary insurance plan. The H.107 could be made more affordable for workers if employers also contributed to the cost of program as is the case in the District of Columbia, Massachusetts, New Jersey, and Washington State.

¹¹ Author's calculations based on the Current Population Survey. *1PUMS-CPS*, University of Minnesota, www.ipums.org.