

GAO

Report to the Subcommittee on Labor-  
Management Relations, Committee on  
Education and Labor, House of  
Representatives

November 1987

# PARENTAL LEAVE

## Estimated Costs of H.R. 925, the Family and Medical Leave Act of 1987



041016

**Human Resources Division**

B-229286

November 10, 1987

The Honorable William L. Clay, Chairman  
The Honorable Marge Roukema, Ranking Minority Member  
Subcommittee on Labor-Management Relations  
Committee on Education and Labor  
House of Representatives

This report responds to your request for a cost estimate of H.R. 925, "The Family and Medical Leave Act of 1987," as amended. This bill permits employees to take up to 10 weeks of unpaid leave over a 2-year period upon the birth, adoption, or serious illness of a child or parent and up to 15 weeks every 2 years for their own illness. Upon returning to work an employee is guaranteed the same, or an equivalent, job. In the first 3 years after enactment, firms employing 50 or more people are subject to the legislation, and thereafter firms employing 35 or more people must provide these benefits. The legislation also specifies that employers must continue health benefits for workers while on unpaid leave on the same basis as if the employee were still working, but does not require the continuance of other employee benefits. To qualify for the unpaid leave, employees must have worked in the firm 20 or more hours per week for 1 year, but a firm's highest paid 10 percent or 5 employees, whichever is greater, may be excluded from coverage.

We estimate the cost of this legislation to employers having 50 or more workers will be about \$188 million annually. This represents the cost to employers for the continuation of health insurance coverage for employees on unpaid leave. Table 1 shows our estimate of the number of beneficiaries and the employer costs for each provision.

**Table 1: Estimated Number of Beneficiaries and Employer Costs for Each Legislative Provision**

<b>Provision</b>	<b>Beneficiaries</b>	<b>Cost (millions)</b>
Birth or adoption	840,000	\$90
Seriously ill child	60,000	10
Seriously ill parent	165,000	35
Temporary medical leave	610,000	53

With firms employing between 35 and 49 people included, we estimate the annual cost to be about \$212 million.

Based on data obtained from employers we surveyed and our review of national studies of employer-provided parental leave, we believe there will be little, if any, measurable net cost to employers associated with

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replacing workers or maintaining current levels of output while workers are on unpaid leave. Firms told us that less than one-third of the workers are replaced and that, for workers who were replaced, the cost of replacements was similar to or less than the cost of the workers being replaced. Other absences were handled by reallocating work among the remaining work force. While some disruption occurred as a result of work reallocation or the hiring of temporary workers, the firms also experienced savings in that no wages had to be paid to the absent workers.

Although there will be costs associated with the federal administration and enforcement of this legislation, we cannot predict the extent to which violations will be alleged that would require investigation and possible adjudication. Therefore, we are unable to estimate these costs.

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## Methodology

To develop our cost estimate, we obtained data from numerous sources, as explained in the appendix. We estimated the number of workers likely to take unpaid leave under the new child provision from data in the March 1987 supplement to the Current Population Survey (CPS) conducted by the Bureau of the Census; the number likely to take leave under the sick child and temporary medical leave provisions from data in the 1985 National Health Interview Survey conducted by the National Center for Health Statistics; and the number likely to take leave under the ill parent provision from data in the 1982 National Long-Term Care Survey sponsored by the Department of Health and Human Services. We also surveyed 80 firms in two metropolitan labor markets—Detroit, Michigan, and Charleston, South Carolina—to obtain experience data on the usage of parental leave, and how employers cope with extended absences. To estimate the employer portion of health benefit costs, we used data from a Small Business Administration (SBA) study of employee benefits in small and large firms. The weekly average employer cost per worker in 1985 was estimated to be about \$25 for firms covered under this bill.

For each of the bill's provisions, we assumed that all individuals with circumstances that might necessitate extended leave would take off either the full period allowed by the bill or the entire period of illness, whichever is less. Using data from the 1986 Bureau of Labor Statistics Survey of Employee Benefits in Medium and Large Firms and the SBA study of employee benefits, we estimated the extent that workers have existing paid sick, vacation, or disability leave available to use before taking unpaid leave under any of the provisions of this legislation.

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## Leave to Care for New Children

We estimate that the cost of continuing health benefits for workers on unpaid leave to care for new children will be about \$90 million annually (\$102 million annually when firms with between 35 and 49 employees are included).

Unpaid leave to care for new children is used almost exclusively by women. Studies of firms in the United States and in other countries that allow parental leave for men as well as women, in addition to our own survey of companies, support this conclusion. According to the CPS, about 2.2 million working women gave birth or adopted a child in 1986. Given the 1-year tenure requirement and the firm size exclusion, we estimate that about 840,000 women would be covered by this provision of the legislation. We assumed that women will take the full 10 weeks of leave allowed, but about 6 weeks of this leave will be their available paid vacation, sick, and disability leave.

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## Leave to Care for Seriously Ill Children

We estimate the annual cost to employers for continued health coverage under this provision to be \$10 million (\$11 million annually when firms with between 35 and 49 employees are included). Using information from the National Health Interview Survey, defining serious illness as 31 or more days of bed rest, and assuming that one parent takes leave to care for each child for the duration of their illness (up to 10 weeks), we estimate that about 60,000 workers would take leave, averaging 7.8 weeks per worker. We also assumed that those workers would use their paid vacation leave, which averages 1.6 weeks, before taking unpaid leave.

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## Leave to Care for Seriously Ill Parents

We estimate the costs to employers for continuing health insurance coverage of workers on unpaid leave to care for seriously ill parents is about \$35 million annually (\$38 million annually when firms with between 35 and 49 employees are included). Using information from the 1982 National Long-Term Care Survey, we estimate that about 165,000 workers are caring for parents with serious disabilities. We assumed that one worker would take the full 10 weeks of leave authorized by this legislation. We also assumed that these workers would use paid vacation leave, which averages about 1.6 weeks per worker, before taking unpaid leave.

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## Temporary Medical Leave

We estimate that the health insurance cost to employers of this provision is about \$53 million annually (\$61 million annually when firms with between 35 and 49 employees are included). Again using the National Health Interview Survey, we estimate that about 610,000 workers having 31 or more days of bed rest would be eligible under this provision. About 40 percent of workers have short-term disability coverage, which would provide paid leave for their illness. Other workers have an average of 3.3 weeks of paid sick and vacation leave available before they would take unpaid leave. The average duration of illness for these workers is estimated to be about 8.9 weeks.

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Our estimates likely overstate the costs of this legislation because we have not adjusted them to reflect the fact that some firms already have parental leave policies similar to the provisions of this legislation and that other employers make accommodations to workers who are ill or have children who are ill for extended periods of time, even in the absence of a formal leave policy. In addition, several states already have disability and/or parental leave statutes containing provisions similar to those in this legislation.

There is another matter related to the cost of this legislation that warrants your attention, namely the need to clarify the definition of serious health condition under the provisions of the bill permitting leave to care for seriously ill children and temporary medical disability. Currently there is substantial room for varying interpretations. For example, the cost of the bill would increase by nearly \$120 million if serious illness is assumed to be 21 days or more of bed rest rather than 31 days as in our estimate.

As requested by your office, we have not obtained agency comments on this report. We will send copies of this report to appropriate congressional committees, other interested parties, and will make copies available to others on request.



Richard L. Fogel  
Assistant Comptroller General

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## Abbreviations

BLS	Bureau of Labor Statistics
CPS	Current Population Survey
GAO	General Accounting Office
SBA	Small Business Administration

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# Parental Leave: Estimated Costs of H.R. 925, the Family and Medical Leave Act of 1987

On November 2, 1987, we were asked by Congressman Clay, Chairman, and Congresswoman Roukema, Ranking Minority Member, Subcommittee on Labor-Management Relations, House Committee on Education and Labor, to estimate the costs of H.R. 925, the Family and Medical Leave Act of 1987, as amended.<sup>1</sup> This legislation would provide job protection to employees who work 20 or more hours per week and have 1-year tenure in firms with 50 or more employees, while permitting them 10 weeks of unpaid leave to care for a new or seriously ill child or parent, and 15 weeks of unpaid leave due to their own illness. Three years after enactment, firms employing between 35 and 49 workers would also be subject to this legislation. Further, the highest paid 10 percent or 5 employees, whichever is greater, are exempt from coverage under this legislation.

Employers would be required to continue health benefits for a worker on unpaid leave on the same basis as if the employee were working. Other benefits, such as life insurance and retirement, need not be continued. Upon returning to work, an employee would resume the same (or an equivalent) job. This legislation can be viewed principally as a job protection measure. During the first 3 years, this legislation would apply to the 39 percent of employees working in firms with 50 or more employees (about 5 percent of firms) and subsequently to the 43 percent of employees in firms with 35 or more employees (about 8 percent of firms).

## Scope and Methodology

Initially, we reviewed studies of employer parental leave policies and practices in the United States and elsewhere to identify

- the extent that firms currently offer unpaid leave similar to this legislation,
- the likely number of users of unpaid leave and the expected length of absence, and
- how companies cope with the absence of workers taking such leave.

To estimate employer health insurance costs, we used data from a 1987 Small Business Administration (SBA) study of employee benefits in small and large firms. The average weekly employer cost of health insurance

<sup>1</sup>GAO has been working on this issue since February 1987, when we were asked to estimate the cost of a similar Senate bill, S. 249. See, GAO's Estimate of the Costs of the "Parental and Medical Leave Act of 1987" (S. 249) (GAO/T-HRD-88-5, October 29, 1987). In March 1987, Congresswoman Roukema requested that we estimate the cost of H.R. 284, which has since been amended and included in H.R. 925.

is about \$25 per worker in firms covered under this legislation. This estimate is a weighted average reflecting the differences in cost and coverage between large and small employers, and family and individual policies.

To estimate the extent to which employees have existing leave available that they could use before taking unpaid leave as provided for under this legislation, we used a 1986 Bureau of Labor Statistics survey of employee benefits for workers in medium and large firms that provided information on the extent to which firms currently provide paid vacation, sick, and short-term disability leave. The SBA study provided similar information for small employers. To determine the length of unpaid leave a worker might take under the various provisions of the legislation, we estimated the sick, vacation, and short-term disability leave available to a worker with 1-year tenure, not allowing for any carry-over of leave from previous years.

We obtained data to estimate the potential number of leave users from three sources:

- The March 1993 supplement to the Current Population Survey (CPS), which allowed us to estimate the number of women who worked in 1992 and who had children under the age of 1 as of March 1993. This is the universe of people who might avail themselves of the bill's provision pertaining to leave to care for new children.
- The 1991 National Health Interview Survey conducted by the National Center for Health Statistics, which contains information on the number of days per year that children and adults are confined to bed because of illness. This allowed us to estimate the population most likely to take leave to care for seriously ill children and for temporary disability.
- The 1989 National Long-Term Care Survey, sponsored by the Department of Health and Human Services, which contains information on the number of primary caregivers of Medicare recipients with serious disabilities. This provided us with information to estimate the population likely to take leave to care for a seriously ill parent.

To get a sense for how employers adjust when employees take temporary leave, we conducted a survey of 80 firms in two metropolitan labor markets—Detroit, Michigan, and Charleston, South Carolina.

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## Summary of Costs of H.R. 925, the Family and Medical Leave Act of 1987

We estimate the cost of H.R. 925 to employers for the continuation of health benefits for the 1.7 million workers who potentially would take unpaid leave will be about \$188 million annually. When coverage is expanded to include firms with 35 or more workers, the estimated cost would be about \$212 million annually for the 1.9 million potential beneficiaries.

We believe there will be little, if any, measurable net costs to employers resulting from a firm's method of adjusting to the temporary absence of workers taking unpaid leave under this legislation. We found that only about 1 in 3 workers were replaced, the cost of replacement workers was similar to or less than the cost of the workers replaced, and employers did not believe that a significant loss of output occurred. In addition, an employer's savings in worker salary and benefits for those on unpaid leave exceeds replacement costs and productivity losses.

Also, we estimate that the rate of usage under the provisions of this legislation will be less than 1 in 300 workers being absent at any time; thus, we would not expect this legislation to cause major disruptions to employers.

Our assumptions that (1) all eligible workers will take leave to care for seriously ill children and parents and (2) workers will take the full length of leave allowed to care for seriously ill parents and new children, tend to over estimate the cost of the legislation. Furthermore, to the extent that workers are already provided parental and extended disability benefits by some firms or have either disability or parental leave benefits under existing state law, the costs to employers of this legislation will be less than our estimate. Also, a firm's ability to exclude its highest paid 10 percent or 5 employees, whichever is greater, will further reduce the cost. The definition and interpretation of what constitutes a serious illness needs clarification and can affect the estimates as well.

Appendix I  
 Parental Leave: Estimated Costs of H.R. 925,  
 the Family and Medical Leave Act of 1987

Figure I.1: Summary of Costs of H.R. 925, the Family and Medical Leave Act of 1987

Provision	Cost (millions)	Likely Beneficiaries
<b>For Firms With 50 or More Employees</b>		
Birth or Adoption of Child	\$90	840,000
Care for Seriously Ill Child	10	60,000
Care for Seriously Ill Parent	35	165,000
Temporary Medical Leave	53	610,000
<b>Total</b>	<b>\$188</b>	<b>1,675,000</b>
<b>For Firms With 35 or More Employees</b>		
Birth or Adoption of Child	\$102	931,000
Care for Seriously Ill Child	11	66,000
Care for Seriously Ill Parent	38	182,000
Temporary Medical Leave	61	676,000
<b>Total</b>	<b>\$212</b>	<b>1,855,000</b>

## Leave to Care for New Children

We estimate that the cost for health care continuance for workers on unpaid leave to care for new children will be about \$90 million annually. Certain key facts regarding our estimate are shown in Figure I.2.

We believe that leave to care for new children will be used predominantly by women. Studies in the United States and in other countries of companies that allow such leave for men as well as women, in addition to our own survey of companies, support this position. While it may be expected that some change in the behavior of men may result from this legislation, it is unlikely that enough men will take leave to significantly affect the cost. Thus, we consider women to be the relevant population upon which to base our estimate.

Figure I.2: Leave to Care for New Children

<b>Likely Beneficiaries</b>	<ul style="list-style-type: none"><li>• Studies show very few men take family leave</li><li>• 840,000 working women who gave birth (or adopted children) in 1986 would have qualified for unpaid leave</li></ul>
<b>Expected Leave Usage</b>	<ul style="list-style-type: none"><li>• 10 weeks, the maximum allowed under the legislation</li></ul>
<b>Existing Leave Policies</b>	<ul style="list-style-type: none"><li>• Studies show workers use paid leave before using unpaid leave</li><li>• 40 percent of women have 6 weeks of employer-provided disability leave</li><li>• Others have an average 3.5 weeks of paid sick and vacation leave</li></ul>
<b>Expected Cost</b>	<ul style="list-style-type: none"><li>• Less than \$90 million</li></ul>

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According to the CPS, about 2.2 million women workers in 1986 gave birth (or adopted children). Given the 1-year tenure requirement and firm size exclusion, about 840,000 women would be covered by this provision of H.R. 925.

Several studies indicate that few women take any unpaid leave, opting instead to use available paid leave. Our survey of firms indicated that over 84 percent of women taking leave returned to work within 10 weeks.

About 40 percent of women in firms providing disability leave were provided 6 weeks of such leave. In addition, some women have paid sick and vacation leave available to use after childbirth. Women had an average of about 3.5 weeks of such leave.

To the extent that firms already offer unpaid leave similar to this legislation (which we were unable to satisfactorily estimate although we know some do), and to the extent that some states have comparable leave laws, the actual cost of this legislation to employers of providing continued health insurance coverage will be less than our estimate.

When the firm size covered is reduced to 35 employees, the cost of this provision will be about \$102 million annually, and the estimated number of women covered will be about 931,000.

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## Leave to Care for Seriously Ill Children

We estimate the cost to employers of continuing health coverage for workers on unpaid leave under this provision is about \$10 million annually, as shown in Figure I.3.

Using information from the National Health Interview Survey conducted by the National Center for Health Statistics, we estimate that the maximum number of workers likely eligible under this provision is about 60,000. This is the number of workers with children under the age of 18 having 31 or more days of bed rest in one year, where either two parents were present and working or a single working parent was present. We assumed that each illness would result in one worker being absent for the full period of bed rest, up to 10 weeks. The average duration of illness is 7.8 weeks.

Figure I.3: Leave to Care for Seriously Ill Children

<b>Likely Beneficiaries</b>	<ul style="list-style-type: none"><li>• Workers with children having 31 or more days bed rest</li><li>• 60,000 workers had seriously ill children</li></ul>
<b>Expected Leave Usage</b>	<ul style="list-style-type: none"><li>• 7.8 weeks average length of illness</li><li>• One parent takes off the entire period for each seriously ill child</li></ul>
<b>Existing Leave Policies</b>	<ul style="list-style-type: none"><li>• Studies show workers use paid leave before using unpaid leave</li><li>• Workers have an average 1.6 weeks of paid vacation leave</li></ul>
<b>Expected Cost</b>	<ul style="list-style-type: none"><li>• Less than \$10 million</li></ul>

We assumed that one parent from 100 percent of the households in the eligible population would take leave for the full duration of their child's illness up to the 10 weeks allowed under the legislation because we were unable to identify any information on the usage of leave to care for seriously ill children—its incidence is low and firms do not keep records on such absences. Further, we assumed that these workers would use their compensated leave, which averages 1.6 weeks, before taking unpaid leave.

The estimated cost of this provision is sensitive to the definition used for the serious illness of a child. To illustrate this sensitivity, we computed alternate estimates using 21 or more days of bed rest. This increases the estimated number of workers eligible to 441,000, and we estimate the cost to be less than \$70 million.

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When the coverage is increased to include firms with 35 to 49 employees, the cost increases to about \$11 million annually. The maximum number of workers eligible increases to about 66,000. Using 21 or more days of bed rest to define a seriously ill child, the number of eligible workers is 488,000 and the cost is about \$76 million.

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## Leave to Care for Seriously Ill Parents

We estimate the cost to employers of continuing health coverage for workers on unpaid leave under this provision is about \$35 million annually, as shown in Figure I.4.

Using information from the National Long-Term Care Survey conducted by the Bureau of the Census for the Department of Health and Human Services, we estimate that the maximum number of workers eligible under this provision is about 165,000.

This is the number of workers who are primary caregivers to Medicare enrollees who require long-term assistance. Long-term assistance is defined as daily assistance with personal hygiene, indoor mobility, or taking medication. A primary caregiver is someone with the main responsibility of caring for the disabled medicare enrollee. Our estimate of the eligible number of workers is probably an overestimate because it includes, in addition to the children, sons- and daughters-in-law of the care recipient, their siblings, grandchildren, other relatives, and friends. We were unable to factor out of this population those not covered by the bill.

We assumed that each worker would take the maximum length of leave allowed under the bill because we have no information to provide us with another estimate. Further, we assumed that these workers would use their vacation leave, which averages 1.6 weeks, before taking unpaid leave.

When firms with 35 to 49 employees are included in the coverage, we estimate the cost to be about \$38 million annually, and the maximum number of workers eligible increases to about 182,000.



Figure I.4: Leave to Care for Seriously Ill Parents

<b>Likely Beneficiaries</b>	<ul style="list-style-type: none"><li>• Workers who have a parent requiring daily assistance with personal hygiene, indoor mobility, or taking medication</li><li>• 165,000 workers care for disabled parents</li></ul>
<b>Expected Leave Usage</b>	<ul style="list-style-type: none"><li>• 10 weeks, the maximum allowed under the legislation</li></ul>
<b>Existing Leave Policies</b>	<ul style="list-style-type: none"><li>• Studies show workers use paid leave before using unpaid leave</li><li>• Workers have an average 1.6 weeks of paid vacation leave</li></ul>
<b>Expected Cost</b>	<ul style="list-style-type: none"><li>• Less than \$35 million</li></ul>

## Temporary Medical Leave

We estimate that the cost of this provision to employers will be about \$53 million annually, as shown in Figure I.5.

Again using the National Health Interview Survey, and defining an employee's serious illness as 31 or more days of bed rest, we estimated that about 610,000 workers would be eligible under this provision. The duration of illness averaged about 8.9 weeks. Since 40 percent of employees are covered by their employers' short-term disability plans, which generally provide for 26 weeks of partially compensated leave, the cost estimate for this provision covers the 60 percent of workers having only sick and vacation leave available, which averages about 3.3 weeks.

The estimated cost of this provision is sensitive to the definition used for the serious illness of an adult. We computed alternate estimates using 21 or more days of bed rest to demonstrate this sensitivity. The estimated number of workers eligible increases to 1.3 million and the cost to \$112 million using the definition.

When the coverage is increased to firms with 35 or more employees, the cost of this provision increases to about \$61 million, and the number of workers covered increases to about 676,000. Defining a seriously ill adult as someone having 21 or more days of bed rest, the number of eligible workers increases to about 1.4 million and the cost to about \$129 million.

**Figure I.5: Temporary Medical Leave**

<b>Likely Beneficiaries</b>	<ul style="list-style-type: none"><li>• Workers with 31 or more days bed rest</li><li>• 610,000 workers had serious illnesses</li></ul>
<b>Expected Leave Usage</b>	<ul style="list-style-type: none"><li>• 8.9 weeks average length of illness</li></ul>
<b>Existing Leave Policies</b>	<ul style="list-style-type: none"><li>• Studies show workers use paid leave before using unpaid leave</li><li>• 40 percent have better benefits under employer-provided, short-term disability leave</li><li>• Others have an average 3.3 weeks of paid sick and vacation leave</li></ul>
<b>Expected Cost</b>	<ul style="list-style-type: none"><li>• Less than \$53 million</li></ul>

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## Employee Replacement and Productivity

Our analysis of H.R. 925 leads us to conclude that there will be little if any measurable net cost to companies attributable to the replacement of workers on leave and associated productivity losses. This conclusion is based upon information from a survey we conducted of 80 firms in two metropolitan labor markets— Detroit, Michigan, and Charleston, South Carolina—where we asked employers how they adjusted to employees taking temporary leave. We found that

- overall about 30 percent of workers were replaced,
- employers tended to reallocate the work of those on leave to other employees,
- the cost of replacement workers was generally similar to or less than the cost of the workers replaced, and
- in general, employers did not believe that reallocating the work or using replacement workers resulted in a significant loss of output.

Clerical workers were most frequently replaced (46 percent), while management and professional staff were seldom replaced. For those replaced, about three-quarters were hired directly by the firms, while the others were hired through temporary employment agencies.

Employers indicated that some disruption occurred as the result of the temporary absence of workers but, in general, they were able to adjust to the situation. More than half stated that their handling of the absence resulted in no delays, and more than three-quarters reported that essentially all work was performed. This was true for both large and small firms.

The net replacement cost to firms is essentially zero. An employer's savings in worker salary and benefits for those on unpaid leave exceeds an employer's cost of replacement. The impression we got from our discussions with employers was that any additional costs associated with disrupted routines or postponed work was likely offset by these savings. Thus, we found little evidence of increased costs to firms.

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## Concluding Observations

We estimate the overall cost of the bill as presently drafted will be less than \$188 million annually. When the coverage is increased to include firms with 35 to 49 employees, the maximum annual cost increases to about \$212 million. The actual cost of this legislation is likely to be less when all existing coverage is factored out of the estimate. Specifically,

- some firms (principally the larger ones) already have parental leave policies similar to the provisions of this legislation,
- several states have disability and/or parental leave statutes under current law, and
- although formal policies generally do not exist, many employers already make accommodations to workers who are ill or have children who are ill for extended periods.

We estimate that the rate of usage under the provisions of this legislation will be less than 1 in 300 workers being absent at any time; thus, we would not expect this legislation to cause major disruptions to most employers.

Our information on usage is based upon past experience, and we assume no substantial behavior change on the part of employees in making our estimates. Although it is true that where attractive paid parental leave is available, an increase in usage results, this legislation provides only modest financial benefits (health insurance continuance) to employees while they experience a total loss of earnings when taking advantage of any of the provisions of this law.

There is another matter related to the cost of this legislation that warrants attention, namely the need to clarify the definition of serious health condition under the provisions of the bill permitting leave to care for seriously ill children and temporary medical disability. Currently there is substantial room for varying interpretations. For example, the cost of the bill would increase by nearly \$120 million if serious illness is assumed to be 21 days or more of bed rest rather than 31 days as in our estimate.

Although there will be costs associated with the federal administration and enforcement of this legislation, we cannot predict the extent to which violations will be alleged that would require investigation and possible adjudication. Therefore we are unable to estimate these costs.

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