



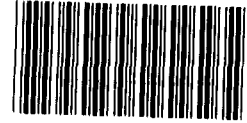
United States  
General Accounting Office  
Washington, D.C. 20548

Human Resources Division

B-229286

February 1, 1993

The Honorable Nancy Landon Kassebaum  
Ranking Minority Member  
Committee on Labor and Human Resources  
United States Senate



148440

The Honorable John Edward Porter  
House of Representatives

This letter responds to your request that we provide an estimate of the cost to employers of H.R. 1, the Family and Medical Leave Act of 1993. Since 1987, we have estimated the cost to employers of various proposals for providing unpaid leave to employees under certain circumstances.<sup>1</sup> Our past work on these proposals has largely been based on 1986 conditions for such factors as coverage and costs of health insurance and the size of the population likely to be eligible to take leave under the proposals' provisions. You requested that we provide you a cost estimate for H.R.1 that reflect 1992 conditions for (1) eligibility and length of leave allowed, (2) health insurance coverage and employer costs, and (3) the size of the population likely to be eligible to take leave under the proposal.

H.R. 1 permits an employee to take up to 12 weeks of unpaid leave each year:

- to care for a newborn, a newly adopted child, or a child placed with an employee for foster care,
- to care for a child, parent, or spouse because of a serious health condition, or
- because of the employee's own serious health condition.

<sup>1</sup>See enclosure I for a listing of our previous reports and testimonies on family and medical leave.

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Upon returning to work, the employee is guaranteed the same or an equivalent job. Moreover, the legislation requires employers to continue health benefits for workers while on unpaid leave on the same basis as if the employee were still working, but does not require continuation of other employee benefits. Thus, if an employer pays half the health insurance premiums for workers, that employer would continue to pay half the premiums for someone taking family or medical leave.

### OVERVIEW

The cost to employers of continuing health insurance coverage for workers on unpaid family and medical leave under the provisions of H.R. 1 would be about \$674 million annually (table 1). This estimate is based on information on employer health insurance costs and employment figures for 1992. As noted in our previous reports, based on our survey of employers, we believe there will be little measurable net cost to employers associated with replacing workers or maintaining output while workers are on unpaid leave.

Table 1: Estimated Number of Beneficiaries and Employer Costs (1986 and 1992) (For Firms With 50 or More Workers)

Dollars in millions				
Provision	H.R. 770 (1986 conditions)		H.R. 1 (1992 conditions)	
	Potential beneficiaries	Cost	Potential beneficiaries	Cost
Birth or adoption of a child	840,000	\$90	908,000	\$244
Seriously ill child	60,000	10	64,000	19
Seriously ill parent	165,000	35	177,000	80
Seriously ill spouse	676,000	142	731,000	241
Temporary medical leave	610,000	53	659,000	90
<b>Total</b>	<b>2,351,000</b>	<b>\$330</b>	<b>2,539,000</b>	<b>\$674</b>

Changes since 1986 in total employment, cost conditions facing employers, as well as differences in the amount of leave allowed, are causes for the \$344 million increase in estimated costs over our estimate for employer costs under H.R. 770, the Family and Medical Leave Act of 1989. About 80 percent of the increase in estimated costs results from the increase in employer health insurance costs and the growth in the number of likely beneficiaries, while about 20 percent results from the overall increase in the length of leave allowed. H.R. 1 allows longer leave than the 1989 proposal (12 weeks versus 10 weeks) for all provisions except for an employee's own illness, which is now 12 weeks instead of 15 weeks.

As we noted in the past, the actual cost of each provision is likely to be somewhat less than our estimate because, while we took into account an employee's accrued sick and vacation time, we are unable to factor out all existing coverage provided by prevailing employer practices or state-mandated family and medical leave policies. In addition, we assumed that all eligible women would take the full amount of leave allowed for the birth or adoption of a child; that one family member would want to be available to care for a seriously ill child, seriously ill parent, or seriously ill spouse for the full duration of illness, up to the maximum amount of leave allowed; and that employees would take the maximum leave allowed for their own serious illness.<sup>2</sup> Also, since our original work in 1986, several states have passed family leave legislation. Thus, we view our cost estimates as upper-bound estimates of the costs to employers for the continuation of the employers' share of health insurance premiums.

#### METHODOLOGY

To calculate an estimate for the cost to employers of providing unpaid leave to eligible workers that reflect 1992 employment and cost information we made three adjustments to our previous cost estimates. First, we updated employers' health insurance costs. Second, we increased the number of likely beneficiaries to reflect employment growth. Third, we adjusted the duration of leave an employee would take to reflect provisions of H.R. 1, the Family and Medical Leave Act of 1993.

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<sup>2</sup>For a more detailed presentation of our original methodology see Parental Leave: Estimated Costs of H.R. 925, the Family and Medical Leave Act of 1987 (GAO/HRD-88-34, Nov. 10, 1987).

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To update our cost estimates for changes in employer health insurance costs we used information from the Health Care Financing Administration (HCFA) and the Bureau of Labor Statistic's Employer Cost Index. These show that employer costs have risen by about 72 percent from 1986 to 1992. To estimate the likely number of beneficiaries we assumed an increase proportional to the increase in employment. Bureau of Labor Statistics data on employment showed a 7.3 percent increase during this time period. We adjusted the amount of leave each beneficiary would be expected to take to reflect the 12 week maximum in H.R. 1. This raised the amount of unpaid leave taken, on average, by about 1 week.

All other assumptions used for our prior cost estimates were unchanged; notably that employers experience no other costs for family and medical leave beyond the health insurance costs. For example, based on information from a survey of employers we conducted in Detroit, Michigan and Charleston, South Carolina, we assumed that the cost of replacing the estimated one-third of workers who were replaced was less than the wages and benefits that were paid to the absent workers before they took leave. Also, while some inconveniences were reported, firms told us that absences were typically handled by reallocating work among the remaining work force.

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We are sending copies of this letter to the Secretary of Labor, appropriate congressional committees and other interested parties. If you have any questions or would like to discuss this material further, please call me at (202) 512-7014, or Sigurd Nilsen at (202) 512-7003.



Linda G. Morra, Director,  
Education and Employment Issues

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Related GAO Products

Parental Leave: Revised Cost Estimate Reflecting the Impact of Spousal Leave (GAO/HRD-89-68, Apr. 6, 1989).

GAO's Cost Estimate of the Family and Medical Leave Act of 1989 (H. R. 770) (GAO/T-HRD-89-4, Feb. 7, 1989).

GAO's Cost Estimate of the Family and Medical Leave Act Proposal (GAO-T-HRD-89-3, Feb. 2, 1989).

Parental Leave: Estimated Cost of Revised Parental and Medical Leave Act Proposal (GAO/HRD-88-132, Sept. 27, 1988).

Parental Leave: Estimated Cost of Revised Parental and Medical Leave Act (GAO/HRD-88-103, May 26, 1988).

Parental Leave: Estimated Costs of H. R. 925, the Family and Medical Leave Act of 1987 (GAO/HRD-88-34, Nov. 10, 1987).

GAO's Estimate of the Costs of the "Parental and Medical Leave Act of 1987" (S. 249) (GAO/T-HRD-88-5, Oct. 29, 1987).

S. 249, "The Parental and Medical Leave Act of 1987" (GAO/T-HRD-87-10, Apr. 23, 1987).

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