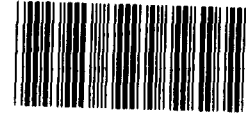


GAO

Testimony



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GAO's Cost Estimate of the
Family and Medical Leave
Act of 1989 (H.R. 770)

Statement of
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Before the
Subcommittee on Labor-Management Relations,
Committee on Education and Labor
House of Representatives



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SUMMARY OF GAO TESTIMONY BY WILLIAM J. GAINER ON
GAO'S COST ESTIMATE OF H.R. 770
THE FAMILY AND MEDICAL LEAVE ACT OF 1989

The family and medical leave legislation would provide job protection to employees of 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 in the first 3 years after enactment. Thereafter, firms employing 35 or more people are subject to the legislation. The legislation requires that employers continue health benefits for workers while on unpaid leave on the same basis as if the employee were still working.

GAO estimates that the annual employer cost of this legislation to employers having 50 or more workers will be, at most, \$188 million, which is the cost of continuing health insurance for employees on unpaid leave. With firms employing between 35 and 49 people included, we estimate the annual cost to be about \$212 million. To the extent that some firms already provide workers family and extended disability benefits or have either disability or family leave benefits under existing state law, this proposal's cost to employers will be less than GAO's estimate.

GAO believes that there will be little, if any, measurable net employer cost caused by firms' adjustment to the temporary absences of workers under this proposal. In addition, GAO concludes that legislating family and medical leave benefits will have little, if any, impact on either the labor-management bargaining process or the final outcome of such negotiations.

Leave to Care for New Children -- GAO estimates that the cost to employers associated with this provision will be approximately \$90 million annually for the continuation of health benefits. GAO estimates that 840,000 women are likely to use such leave.

Leave to Care for Seriously Ill Children -- GAO estimates that this provision's annual employer health insurance cost is about \$10 million. Using national health statistics, defining serious illness as 31 or more days of bed rest, and assuming that one parent takes unpaid leave to care for each child, about 60,000 workers would likely take an average of 7.8 weeks of leave.

Leave to Care for Seriously Ill Parents -- GAO estimates that this provision's employer health insurance cost is about \$35 million annually. Using national health statistics, we estimate that about 165,000 workers would be eligible for unpaid leave to care for parents with serious disabilities.

Temporary Medical Leave -- GAO estimates that this provision's employer health insurance cost is about \$53 million annually. Again using national health data, about 610,000 workers would likely take an average 8.9 weeks of unpaid leave under this provision.

Mr. Chairman and Members of the Subcommittee:

I am pleased to provide an update of GAO's estimate of the costs of H.R. 770, the "Family and Medical Leave Act of 1989". My purpose today is to provide an estimate of the cost and comment on the potential effects of such legislation on labor-management wage and benefit bargaining.

We have used the same basic methodology utilized in developing earlier cost estimates for this Committee. To facilitate comparison between the different proposals, we did not modify certain cost related factors that have changed since our original estimate, notably employer health insurance costs, the number of births occurring and the size of the workforce. To get a sense of how family and medical leave legislation could constrain wage bargaining, we contacted several public and private employers and labor representatives that have negotiated for such benefits.

While the process of estimating the costs associated with this legislation is difficult and subject to uncertainty, we have made every effort to obtain data which provide a concrete basis upon which to make the necessary underlying assumptions.

- o In brief, we estimate that the primary cost to employers associated with this proposal will be, at most, \$188 million annually. This cost is associated with the requirement that employers continue the health insurance coverage for employees on unpaid leave. With firms employing between 35 and 49 people included, we estimate the annual cost would be about \$212 million.
- o The actual cost to employers for providing continued health insurance coverage for workers on unpaid leave is likely to be less than our estimate, in that some firms already offer unpaid leave similar to this proposal and a number of states have comparable leave laws.
- o We conclude that there will be little, if any, measurable net cost to employers associated with a firm's method of adjusting to workers taking leave under this legislation.
- o The proposed family and medical leave benefits is not expected to adversely constrain the process of negotiating wage and benefit packages between workers and their employers.

GAO Summary of Costs of Family and Medical Leave

Provision	Likely Beneficiaries	Cost (millions)
Care for New Children	840,000	\$90
Care for Seriously Ill Child	60,000	10
Care for Seriously Ill Parent	165,000	35
Temporary Medical Leave	610,000	53
Total	1,675,000	\$188

KEY PROVISIONS

Before elaborating, I would like to briefly summarize the key provisions of the proposed legislation.

In the first 3 years after enactment, the bill would require federal, state, and local governments and any company with 50 or more employees to grant a worker:

- up to 10 weeks of unpaid leave over a 24-month period upon the birth or adoption of a child, or serious health condition of a child or parent, and
- up to 15 weeks of unpaid leave over a 24-month period, for a serious health condition.

The employer 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. Consequently, this legislation can be viewed principally as a job protection measure

to employees who work 20 or more hours per week and have one year's tenure. Further, the highest paid 10 percent or 5 employees, whichever is greater, are exempt from coverage under this legislation. Three years after enactment, firms employing 35 or more people would be subject to the legislation.

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. We computed the average employer portion of health insurance coverage to be about \$25.00 a week for each worker. This estimate averages the differences in cost and rates of coverage between large and small employers, and for family versus individual plans.

This legislation would apply to the 39 percent of employees who are full-time or permanent part-time employees of firms with 50 or more workers (about 5 percent of firms) during the first three years. Subsequently, the legislation would apply to the 43 percent of employees working for firms with 35 or more employees (about 8 percent of firms).

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 would be about \$90 million annually. 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 to employers of providing continued health insurance coverage to workers on leave will be less than our estimate.

We believe that leave to care for new children is used predominantly by women. Studies in the United States and in other countries 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 materially affect the cost. Thus, we consider women to be the relevant population upon which to base our estimate. According to the March 1987 Current Population Survey (CPS), about 2.2 million women workers in 1986 gave birth (or adopted children). Given the firm size exclusion, about 840,000 women would have been eligible for leave under this provision.

We assumed that women will take the full 10 weeks of leave allowed by the legislation. We allowed 6 weeks of disability leave for the 40 percent of women in firms providing such leave. In addition, some women have paid sick and vacation leave available to use following childbirth.

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.

Certain key facts regarding our estimate are shown in the chart.

GAO Leave to Care for New Children

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|-------------------------|---|
| Likely Beneficiaries | <ul style="list-style-type: none">• Very few men• 840,000 women |
| Expected Leave Usage | <ul style="list-style-type: none">• 10 weeks, the maximum allowed |
| Existing Leave Policies | <ul style="list-style-type: none">• 40 percent of women have 6 weeks disability leave |
| Expected Cost | <ul style="list-style-type: none">• Less than \$90 million |
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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 the chart.

GAO Leave to Care for Seriously Ill Children

Likely Beneficiaries	<ul style="list-style-type: none">• Workers with children having 31 or more days bed rest• 60,000 workers
Expected Leave Usage	<ul style="list-style-type: none">• 7.8 weeks average length of illness• One parent takes off the entire period
Existing Leave Policies	<ul style="list-style-type: none">• 1.6 weeks paid vacation leave
Expected Cost	<ul style="list-style-type: none">• Less than \$10 million

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. This was necessary because we were unable to identify any information on the usage of leave to care for seriously ill children due to its low incidence and because firms do not keep records on such absences. Further, we assumed that these workers would have, on average, 1.6 weeks of compensated vacation leave available prior to taking unpaid leave.

Using information from the 1985 National Health Interview Survey conducted by the National Center for Health Statistics, we estimate that the number of workers likely to take leave under this provision is about 60,000. This is the number of workers

with children under the age of 18 requiring 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, an average of 7.8 weeks.

When the firm size covered is reduced to 35 employees, the cost increases to about \$11 million annually. The maximum number of workers eligible increases to about 66,000.

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.

GAO Leave to Care for Seriously Ill Parents

Likely Beneficiaries	<ul style="list-style-type: none">• Workers with a parent requiring long-term assistance• 165,000 workers care for disabled parents
Expected Leave Usage	<ul style="list-style-type: none">• 10 weeks, the maximum allowed
Existing Leave Policies	<ul style="list-style-type: none">• 1.6 weeks paid vacation leave
Expected Cost	<ul style="list-style-type: none">• Less than \$35 million

Using information from the 1982 National Long-Term Care Survey conducted by the Bureau of the Census for the Department of Health and Human Services, we estimate that about 165,000 workers would be in a position to take leave under this provision. 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 person. This 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 not covered by the legislation. We were unable to factor out of this population those not covered.

We assumed that each worker would take the maximum length of leave allowed under the legislation 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 likely to take such leave increases to about 182,000.

TEMPORARY MEDICAL LEAVE

We estimate that the cost of this provision will be about \$53 million, annually.

Again using the 1985 National Health Interview Survey, and defining an employee's serious illness as 31 or more days of bed rest, we estimate that about 610,000 workers would be eligible under this provision. The duration of illness averaged about 8.9 weeks. Because 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 some sick and vacation leave available.

When the firm size covered is reduced to 35 or more employees, the cost of this provision increases by about \$61 million annually, and the number of workers eligible increases to about 676,000.

GAO Temporary Medical Leave

Likely Beneficiaries	<ul style="list-style-type: none">• Workers with 31 or more days bed rest• 610,000 workers
Expected Leave Usage	<ul style="list-style-type: none">• 8.9 weeks average length of illness
Existing Leave Policies	<ul style="list-style-type: none">• 40 percent have disability coverage
Expected Cost	<ul style="list-style-type: none">• Less than \$53 million

ROLE OF FAMILY LEAVE IN LABOR-MANAGEMENT BARGAINING

Family and medical leave benefits are likely to have little, if any, measurable impact on either the labor-management bargaining process or the final outcome of such negotiations. While removing any component of employee compensation from negotiations, by definition limits the range of bargaining and could be expected to have some effect, the magnitude of impact of legislating relatively a low cost benefit such as uncompensated family and medical leave, is likely unobservable. Furthermore, in a series of discussions with private and public employers and employee organizations that have negotiated for family and medical leave benefits, neither management nor labor representatives believed that the costs associated with parental leave were large enough to result in trade-offs with other components of the negotiated compensation package.

To sum up, we estimate the overall cost of this legislation as presently drafted is, at most, \$188 million annually. When firms employing between 35 and 49 people included, we estimate the annual cost to be about \$212 million. The actual cost is likely to be less when all existing coverage is factored out of the estimate. Specifically:

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

In addition, because we were unable to obtain estimates of actual usage by workers, we likely overstate the number of workers taking leave and the length of leave likely to be taken to some extent.

We estimate that the rate of usage under the provisions of this legislation will be equivalent to less than 1 in 300 workers being absent at any time. The most important benefit the legislation provides is job protection which could also reduce job turnover. Improved employee morale and a more experienced, loyal, and committed work force are other intangible, and perhaps unmeasurable, potential benefits of this legislation.

To update our estimates to reflect 1988 conditions, employer health insurance costs, the number of births and total employment figures would have to be adjusted. Health insurance premiums increased about 23 percent between 1985 and 1988, which would affect the cost of all of the legislation's provisions. Births have increased by about 4.2 percent, thus raising the number of likely beneficiaries covered by the provision providing leave to care for new children. Finally, total employment has expanded by approximately 7.5 percent, affecting the other provisions of the legislation. Overall it would increase the cost of this legislation by about 30 percent.

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Mr. Chairman, this concludes my prepared statement. I and my colleagues will be pleased to answer any questions you and the other members of the Subcommittee may have.