Research-in-Brief



IWPR Publication #A128 October 2001

Family Leave for Low-Income Working Women: Providing Paid Leave through Temporary Disability Insurance The New Jersey Case

Michele I. Naples The College of New Jersey

The Family and Medical Leave Act of 1993 (FMLA) provided for unpaid time off from work to care for sick relatives or a newborn or adopted child, guaranteeing leave-takers' jobs when they returned to work. Low-wage workers and single parents, however, cannot fully benefit from the FMLA because it offers no replacement income. In families that depend on women's earnings to maintain living standards, unpaid time off from work threatens family finances that are already strained by the costs of bearing and providing for a new child, or the costs of health care for a sick family member. To ensure that those most in need of the protections of the FMLA can take advantage of the law, New Jersey is one among several states considering legislation to provide Family-Leave Insurance (FLI): paid leave to care for newborn babies and adopted children (BAA), and paid family-disability leave (FDL) to care for an ill child, spouse, or elderly parent.

This Research-in-Brief summarizes a research project conducted by Michele I. Naples and Meryl Frank that examined proposals in New Jersey for paid family and medical leave programs. It discusses the policy context in which these programs are being considered and details the technical considerations behind estimating the cost of providing family-leave insurance.

The Absence of Income Support Hinders Family Leave-Taking

By 1988, more than half of all women with infants were entering or returning to the labor force after child-birth. Today, Census data indicate that in married-couple families, three in five mothers with infants are in the labor force, and three of every four mothers whose children are at least six years old are labor-force participants. Thus, most potential caregivers for healthy infants and sick children today are in the labor force. While changing demographics and lifestyles have encouraged men to do far more child care and child-rearing than they did in the past, when time off work is needed, women are still the primary caregivers.

Women also continue to carry substantial responsibility for caring for adults. Three-fourths of those who care for elderly relatives are women, and two-thirds of these women work full- or part-time. More than four in ten have children to care for as well (US DOL 1998).

For households with median income-earners, women earn 35 percent of combined household income (US DOC 2001). Taking an unpaid leave means foregoing essentials, not luxuries. This is particularly true in low-income households, where most expenses are not discretionary and where extended family members often have fewer resources to help out than middle- or upper-income households.

In the case of single-parent households, which are 27 percent of all households, the loss of paid work may mean no family income at all. Women head about 80 percent of these households. Forced to choose between caring for a needy loved one or providing for the family, these family heads have no real choice, and most must continue to work.

Without paid leave programs, therefore, employed parents cannot take full advantage of the FMLA. To balance competing demands for their time at work and at home, workers either limit their leave length or do not take a leave of absence from work at all. In the absence of paid leave, the current system favors those who can afford an unpaid leave or have paid leave through a voluntary employer program, while providing little help to low-income or single caretakers.

Unpaid Leave Hurts Employed Caregivers: Ratcheting Downward in the Workforce

The Personal Costs of Continuing to Work While Providing BAA and FDL Care

Low-income workers are the least likely to have sickday or vacation pay they can apply toward newborn or family-disability leaves. Jody Heymann (2000) found that half to three-fourths of those in the lowest quartile of family income have had jobs within the last five years that lacked paid sick leave, vacation leave, or both. Such workers can ill afford unpaid leave. They face two difficult alternatives: continue to try to juggle work responsibilities while caring for the newborn or sick relative, or quit their job and try to qualify for public assistance.

The need to provide care to a seriously sick child or elderly parent causes people to pull back at work. Women who are juggling these choices may step down from demanding positions or move from full-time to part-time work. Both workplace adjustments can mean unnecessary permanent income loss, despite the temporary character of the family illness to which they are a response.

There can also be negative health consequences for care providers or care receivers when workers try to do too much. When women continue to work while adjusting to and caring for newborns or ill children, spouses or parents, their stress levels rise exponentially (Dickert 1999). The health problems associated with these stresses are well documented and point to the long-run benefits of family leave (Cantor et al. 2000). Without leave, it may be more difficult for the care provider to follow the prescribed medical regimen, and the care recipient may not recover as fast or may have to go into a long-term care facility sooner. Middle-income families may factor such long-run concerns into their choices to take unpaid leave now. Low-income households cannot afford to sacrifice today in order to benefit tomorrow, especially if today's lost income means not meeting financial obligations, losing the family car, or being evicted. These cutbacks could cause a family economic crisis that would have its own health consequences.

Parental leave has also been shown to improve parentchild bonding and infant health (Idemoto 2000). It allows working parents time to identify a good child-care provider. When the absence of paid leave prevents or limits the extent of parental leaves, these benefits are lost.

The Employment Consequences of Having to Use Public Assistance When Taking Unpaid Leave

In the past, nearly 8 percent of low-income caregivers financed their leaves with public assistance (Naples and Frank forthcoming; US DOL 1996). Recent restrictions on welfare eligibility have made public assistance much less available, so low-wage workers have even fewer choices. Workers who do leave the labor force and receive public assistance also face adverse consequences such as the loss of seniority benefits, opportunities for promotion, and accumulated sick and vacation days and a halt in pension vesting. These losses would be avoided if workers could take a paid leave and then return to their original job.

Available data do not specify what portion of care-providers rely on unemployment compensation rather than welfare. In most instances, an individual who leaves work to care for a family member can qualify for unemploy-

ment insurance only if the previous employer is willing to state, as a courtesy to help out the caregiver financially, that the worker was laid off rather than having quit. Under these circumstances, however, there is no assurance that the employee will be rehired once she is free to rejoin the labor force. The caregiver's discontinuous work pattern reduces her status on the job, causing her to ratchet down in the work hierarchy. When the infant is older or the relative's health improves, a new job search must be undertaken, delaying the return to work. With a paid family leave, a worker could simply step back into the previous job and immediately resume earning wages.

Unpaid Leave Affects Employers: Workforce Instability

Workers who cannot afford to take family leave may nevertheless take time off from work intermittently to provide care. They may be late more often, leave early, have unexpected absences, and be interrupted at work by calls from home or from health-care professionals. Employers have identified the FMLA's requirement of advance notification of worker absence as one of the Act's most positive aspects, in part because it permits them to plan to cover their employee's job responsibilities during family leave (Cantor et al. 2000). Some workers are loath to acknowledge their need for family leave to their employers because they cannot afford to be forced to take time off without pay. For employers, unscheduled and seemingly random job interruptions are more costly than scheduled leaves. By forcing workers to stay on the job when they are needed at home, the absence of income replacement prevents the FMLA from alleviating problems for employers it was designed to prevent.

Paid TDI Leave for Those Temporarily Unable to Work is Easily Extended to Family Leave

TDI was Designed for Health-Related Disabilities that Temporarily Prevent Employment

When Temporary Disability Insurance (TDI) was implemented in California, New Jersey, New York, Rhode Island, and Hawaii, in most cases just after World War II, the legislation addressed two goals. First, a commitment to fairness motivated the effort to provide some income replacement for workers whose illness made them temporarily unavailable for work. Second, TDI helped secure sick employees' labor-force attachment by linking their access to benefits to previous employment and tying benefit amounts to previous earnings levels. Following one sick spell, a return to paid employment is necessary to qualify for future TDI in case of another illness.

Trust funds were created for the new TDI programs, typically financed by employee contributions (in New

Jersey, by employers' as well), to ensure the financial soundness of the program. In New Jersey, employers are allowed to substitute private TDI for the state plan, as long as these private plans meet or exceed state requirements. (Figure 1 provides additional information about New Jersey's TDI program.)

TDI legislation does not usually guarantee that the worker can return to the previous job. However, anecdotal evidence in New Jersey suggests that it is unusual for TDI beneficiaries to lose their jobs, as employers and coworkers accept TDI leave as a right rather than a privilege. This positive TDI culture also reinforces labor-force attachment and makes the return to work as seamless as possible.

Figure 1. The Current New Jersey TDI System and Proposed Family-Leave Insurance

- The TDI trust fund is financed by employer and employee contributions. It has run surpluses in recent years.
- Employers can opt out and substitute their own private plan if its eligibility and benefit amounts are at least as good as the state plan.
- To qualify in 1999, workers had to have earned more than \$2,880 annually, or at least \$8,700 if they worked less than 20 of the 52 weeks immediately preceding the disability (the base period).
- Weekly benefits are 60 percent of base-period earnings, with a maximum of 53 percent of the state average weekly earnings (\$381 in 1999). Those earning more than 80 percent of the state average are capped at the maximum benefit amount.
- A worker unable to work for: one week does not qualify for TDI; two weeks is reimbursed for the second week of lost work only; three weeks or more is reimbursed for the whole period of lost worktime.
- Those receiving unemployment compensation can get TDI under the 4f program.
- Disability leaves last a maximum of 26 weeks.
- In 1997, 15 percent of NJ TDI-users took pregnancy-disability leaves, averaging 9.8 weeks. 85 percent took disability leaves for other conditions, averaging 9.5 weeks.
- The New Jersey Legislature is considering legislation permitting all workers eligible for TDI benefits to take up to 12 weeks of TDIcompensated leave to care for an ill child, spouse, or parent, or a new child, whether newborn or adopted.

Changing Labor-Force Demographics Make TDI Expansion Necessary

When TDI was first instituted, working women constituted less than a third of the US labor force (US DOL 1999). By 1999, 47 percent of the labor force was female. The most common type of family with children today is that with two working parents (US DOC 2001). Clearly, the portion of the workforce that is likely to experience conflicts between employment and the need to care for family members has increased significantly. The difficulties of balancing work and family in the face of increasing work by parents has drawn media and academic attention. Public policies need to recognize and adapt to the needs of changing labor-market demographics.

The intention of paid family leave is to provide employed caregivers with some financial relief when they temporarily leave their jobs to care for a newborn or adopted child, or for an ill child, spouse or elderly parent. Besides helping caregivers, this will help employers by allowing them to plan for their employees' leaves and by increasing caregivers' attachment to the labor force and to their current jobs in particular. Because these goals dovetail with the function of temporary disability insurance, TDI is well suited to serve as an avenue for providing paid family leave.

Administrative Advantages of Using TDI for Family-Leave Insurance

The administrative structure for collecting TDI revenues and disbursing benefits is already in place in the five states providing such programs and at TDI-covered businesses in those states. In New Jersey, the state overhead costs are so low relative to private plans that, over time, employers who had voluntarily chosen their own private trust-fund plan have increasingly opted to join the state plan.

The marginal administrative cost of paid family leave under the state program is expected to be small. Workloads in the processing center may increase (for New Jersey, Naples and Frank, forthcoming, projects a 70 percent increase in beneficiaries but only a 35 percent increase in the total number of weeks of leave taken). Governments and employers in TDI states have already developed the mechanisms to inform employees about their rights under TDI and to process the paperwork for TDI claims. There should be little change here beyond providing additional information through the usual forums. Since a tiny fraction of total New Jersey employees are likely to claim benefits under FLI (two percent), the employer costs of handling TDI claims should again be proportionately small.

For those states considering creating a new TDI system in order to provide paid family-disability and newborn leaves, TDI can readily do double duty to cover own-disability as well, including pregnancy disability. New Jersey figures discussed below suggest that the total costs of own-

disability swamp family-leave insurance projected costs, because the leave length and number of claimants for owndisability is so much higher than for those likely to claim benefits as caregivers.

The Fiscal Viability of Paid Family Leave Under New Jersey TDI: Updating IWPR Estimates

In 1995, the Institute for Women's Policy Research (IWPR) projected the costs of paid family leave in the five TDI states and five additional states (Hartmann et al. 1995). The IWPR estimates were based on an exploratory leave program loosely modeled on TDI, but more inclusive and more generous for the lowest-income workers than existing TDI programs in most states.

In two legislative sessions over the last four years, New Jersey has considered avenues for providing paid family leave: TDI in 1997 and Unemployment Insurance in 2000-1. To calculate the likely cost of these proposals, Naples and Frank (forthcoming) updated the IWPR estimates of the costs of funding family-leave insurance to reflect New Jersey's experience of TDI (1997 data) and the paid leaves being proposed in New Jersey. A 1996 U.S. Department of Labor analysis of the impact of the Family and Medical Leave Act also provides relevant data for several parts of the cost estimates that were unavailable when the IWPR study was conducted.

Table 1 compares the 1995 IWPR estimates with those from Naples and Frank (forthcoming). The major differences between the two reflect adjusted estimates of the number of leave users and leave lengths. These differences are highlighted in Table 2.

<u>Leave Users</u>. The IWPR estimates were adjusted to conform to eligibility for New Jersey's TDI program. The primary change reflected the fact that almost one-third of the New Jersey labor force is covered by private plans that are not financed by the state and would not be its fiscal responsibility. Three other adjustments substituted information on actual users of FMLA leaves (US DOL 1996) for

the original IWPR estimates. The estimate of potential users was reduced significantly on the basis of data showing that about half of all users had fully paid leaves and would therefore not apply for partial reimbursement under FLI.

<u>Leave Length</u>. IWPR estimates of leave length were adjusted for New Jersey TDI reimbursement rules and for data on the actual lengths of leaves taken under the FMLA (ibid.). Recent data on leave-users who cut short their time off from work when they could not afford more unpaid leave offset some of the reduction (ibid.).

Weekly Benefit Amount. The IWPR figures on weekly benefit amounts were close to actual benefit levels for TDI leaves in the mid-1990s. Although IWPR estimates were as much as 10 percent higher or lower than actual New Jersey TDI benefit amounts for specific categories of leave, on average the estimates were virtually the same. Naples and Frank (forthcoming) estimates exceed those of IWPR (1995) because production-worker earnings were 46 percent higher in 1999 than in 1990.

Evaluating The Costs of TDI-Funded Family-Leave Insurance in New Jersey

Table 3 contrasts the updated Family-Leave Insurance estimates with current New Jersey TDI costs. The *per user* cost of Family-Disability Leave is estimated to be about \$930 a year, or one-third of current TDI (\$2,823). Birth and Adoption leaves would be about \$1,780 each, or almost two-thirds the cost of a current TDI leave. Family-disability leave appears to be about half as expensive per user as newborn leave, but even newborn leave is expected to cost only 63 percent of the current per-user expenditures for own-disability leave.

With 2,619,800 covered workers in New Jersey in 1997, the annual cost of adding BAA leave to New Jersey's TDI program would be \$30 for each covered worker; the annual cost per covered worker of adding FDL would be \$13. Combined, these programs would cost less than \$0.02 to \$0.03 per covered worker-hour.²

Table 1. The Cost of Family-Leave Insurance: Naples & Frank Update of IWPR Estimates											
	IWPR (1995 Estimates)				Naples & Frank (forthcoming)						
Program	Number of Leave Users	Assumed Length of Leave (Weeks)	Estimated Weekly Benefit	Total Cost (in Millions of 1990 Dollars)	Number of Leave Users	Estimated Length of TDI Leave (Weeks)	Estimated Weekly Benefit	Total Cost (in Millions of 1999 Dollars)			
FDL	92,408	6.5	\$224.38	\$133.8	37,548	3.1	\$297.00	\$34.9			
BAA	133,775	10.0	\$198.50	\$265.5	43,650	6.3	\$282.95	\$77.8			
Total FLI	226,183	8.6	\$206.48	\$399.3	81,198	4.8	\$287.15	\$112.7			
Note: FDL is Family-Disability Leave: BAA is Birth and Adoption Leave: and FLI (Family-Leave Insurance) is the total of											

Note: FDL is Family-Disability Leave; BAA is Birth and Adoption Leave; and FLI (Family-Leave Insurance) is the total of these two programs.

The New Jersey legislature has considered using the accumulated surplus in the TDI fund to run the Family Leave Insurance program on a pilot basis. If the program were financed by a surcharge on TDI earnings, a rate of 0.24 to 0.29 percent (on \$47.1 billion in annual TDI

earnings) would be adequate to fund Family-Leave Insurance in New Jersey.³

The U.S. Department of Labor's 1996 FMLA study showed that about 7.5 percent of those taking leaves relied on public assistance to pay the bills while they were out of work. Instituting family disability and newborn leave should reduce the number of people applying for welfare/workfare and other social programs such as food stamps and housing subsidies and shift some people from unemployment insurance to TDI. The net cost of FLI, therefore, will be less than the direct cost, given these savings in other social-insurance programs.

Policy Recommendations

Temporary Disability Insurance offers a promising avenue for providing paid leaves for family disability, babies, and adoption. In states with functioning TDI programs (California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico), the addition of family leave to the existing coverage should be frictionless. In those states considering instituting TDI programs, both family leave and own-disability leaves could be accommodated in the new program.

For low-income households, and for working women in particular, family-leave insurance provides crucial income replacement. It allows workers to take needed leave from work to care for sick relatives and newborns, reducing workers' stress and improving the care family members receive.

Table 2. Main Naples & Frank Adjustments to IWPR Estimates				
	Reduce IWPR (1995) Cost Estimate by:			
Adjustments to Estimated Number of Users:				
Exclude workers not covered by New Jersey state TDI plan	32%			
Exclude workers whose FMLA leaves would be full paid by their employers	51%			
Adjustments to Estimated Length of Leave:				
Use actual lengths of FMLA leaves taken, adjusted for leaves cut short by financial need	25%			
Adjustments to Aggregate Projected Cost of Family Leave Insurance				
Combined effect of 3 itemized adjustments in reducing cost estimate	75%			
Total net reduction in estimated cost, all 15 adjustments	72%			

Table 3. Comparison of Current New Jersey TDI Expenditures with Cost Estimates for Family-Leave Insurance										
	Number of Leave Users	TDI Leave Length (weeks)	Weekly Benefit	Total Cost (in millions of dollars)	Annual Cost per User	Cost Net of Savings on Public Assistance				
Current TDI Program:										
Pregnancy related	17,962	9.8	\$282.95	\$49.8	\$2,773					
Other own disability	99,438	9.5	\$298.06	\$281.6	\$2,832					
Total	117,400	9.6	\$295.00	\$331.4	\$2,823					
Proposed Family Leave Insurance:										
Family disability leave	37,548	3.1	\$297.00	\$34.9	\$929	\$32.3				
Babies and adoption	43,650	6.3	\$282.95	\$77.8	\$1,783	\$71.9				
Total	81,198	4.8	\$287.15	\$112.7	\$1,388	\$104.3				

Endnotes

- Naples and Frank (forthcoming) provide a range of projected costs for FLI. The estimates reported here were judged the most likely to be accurate, although an alternative higher-cost model was also explored. See the full study for details.
- ² Before adapting these numbers to other states, note that the cost of living for poor people in New Jersey is about twenty percent higher than the national average, second only to Hawaii among the 50 states (National Research Council 1995). The average weekly benefit amount should be adjusted by comparing other states' average weekly earnings to New Jersey's, which was \$719 in 1999. States have widely different population structures in terms of age and
- childbirth and these should also be taken into account. A more modest program for FLI proposed for Washington state would limit FLI to five weeks, pay benefits of \$250, and be prorated for part-time workers, and would assess a tax of \$0.01 per worker-hour (Idemoto 2000). A Massachusetts BAA program using unemployment insurance to reimburse 50 percent of the average weekly wage, not to exceed \$261 in 1998, was estimated to cost \$11 per worker-year (Albelda and Manuel 2000).
- The higher figure would finance the high estimate derived from an alternative model also provided in Naples and Frank (forthcoming).

Resources on the Costs of Family-Leave Insurance

www.iwpr.org

The Institute for Women's Policy Research conducts and disseminates research on a range of women's policy issues, including work and family. The Institute recently received funding from the Ford and Annie E. Casey Foundations to provide research support and technical assistance to advocates working to promote paid family and medical leave.

www.nationalpartnership.org

The National Partnership for Women and Families promotes paid family leave as its top priority. It reports in detail on current developments in the states and organizes regional and national conferences on the issues. A listserv facilitates communication among advocates.

www.EOIonline.org

The Economic Opportunity Institute of Seattle, Washington, has proposed family-leave insurance through a \$0.01/hour employee/employer contribution to a new FLI fund. The EOI website includes summary information for 50 states on current FLI efforts.

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Production of this RIB was made possible by the generous support of the Ford Foundation and the Annie E. Casey Foundation.

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