COUNCIL OF THE DISTRICT OF COLUMBIA
Office of the Budget Director

Jennifer Budoff
Budget Director

MEMORANDUM

TO:	**Committee of the Whole**
FROM:	**Jennifer Budoff, Budget Director** **Susanna Groves, Senior Budget Analyst** **John MacNeil, Senior Budget Analyst**
SUBJECT:	**Addendum to the Economic and Policy Impact Statement on the "Universal Paid Leave Amendment Act of 2016"**
DATE:	**October 9, 2017**

Summary

On October 10, 2017 the Committee of the Whole will hold a public hearing on five different pieces of legislation about paid family and medical leave benefits. The Office of the Budget Director (Budget Office) analyzed the economic impact of the proposed approaches to paid leave by grouping the bills into three general categories: a public insurance program, a government mandate on employers, and a hybrid public and private model.

The Budget Office found that each of these three approaches to providing equivalent paid leave benefits would have virtually the same impact on the District's economy and job market over the medium to long term. Specifically, the Budget Office's economic model projects that these policies would reduce private sector job growth by 500 jobs in 2027 compared to the baseline economic scenario, which is not significant given overall employment growth in the District.[1] Nevertheless, the five different pieces of legislation contain substantial policy differences that warrant careful consideration.

I. Economic Impact of Existing Law

The "Universal Paid Leave Act of 2016" (D.C. Law 21-264) became effective on April 28, 2017. It authorizes the creation of a paid leave public insurance program to compensate eligible private and non-profit sector workers in the District during a family or medical leave event. It insures workers against wage loss for up to eight weeks to welcome a new child, six weeks to care for an ailing family member,

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[1] To put these figures in perspective, the Office of the Chief Financial Officer reported that employment in the District increased by an average of 11,039 jobs per year between 2013 and 2015.

or two weeks to recover from a serious health condition. Its fund would replace 90% of covered worker's wages up to 150% of the minimum wage and 50% of earnings above that threshold up to a maximum weekly benefit of $1,000. The program is supported by a new 0.62% employer-paid payroll tax.

The Economic and Policy Impact Statement on the "Universal Paid Leave Amendment Act of 2016", published by the Budget Office on December 2, 2016, shows that a public insurance program as established in D.C. Law 21-264 would not have a significant impact on the District's employment growth or gross domestic product (GDP). By 2027, the model forecasts that the District's economy would support approximately 500 fewer private sector jobs compared to the baseline economic forecast, and GDP would decrease by $46 million compared to the baseline[2]. To put these figures in perspective, the Office of the Chief Financial Officer reported that employment in the District increased by an average of 11,039 jobs per year between 2013 and 2015, and under the baseline economic projection District GDP is expected to grow from $124 billion in 2016 to approximately $152 billion in 2027 (in fixed 2015 dollars). The program's negative economic impact is expected to be greatest during the first year when a tax or fee is collected but no cash payments are disbursed.

II. Proposed Modifications to Original Law

To date, during Council Period 22, Councilmembers have introduced five different bills that either amend or replace D.C. Law 21-264 (see **Table 1**). The existing law and the new pieces of legislation provide the same leave period and wage replacement rates, but they deviate by funding mechanism and implementing authority. Unlike D.C. Law 21-264, they all treat larger and smaller firms differently with the exception of Bill 22-325.

Table 1: Legislative Summary

Legislation	Introducer	Source of Funding		Type of Program
		Employer-Paid	Employee-Paid	
Universal Paid Leave Act of 2016 (D.C. Law 21-264)	Grosso, Nadeau, McDuffie, Silverman, Allen, May, Cheh	X		Public Insurance
Paid Leave Compensation Act of 2017 (Bill 22-130)	Cheh, Evans	X		Hybrid
Universal Paid Leave Compensation for Workers Amendment Act of 2017 (Bill 22-133)*	Evans, Gray	X		Employer Mandate
Large Employer Paid-Leave Compensation Act of 2017 (Bill 22-302)	Evans	X		Employer Mandate
Universal Paid Leave Amendment Act of 2017 (Bill 22-325)**	Cheh	X	X	Public Insurance
Universal Paid Leave Pay Structure Amendment Act of 2017 (Bill 22-334)	Mendelson	X		Hybrid

* This bill would allow the Mayor to impose a small payroll tax on employers to cover the cost of small business tax credits.
** This bill proposes assessing a fee on both employers and employees, as opposed to a tax or mandate on employers.

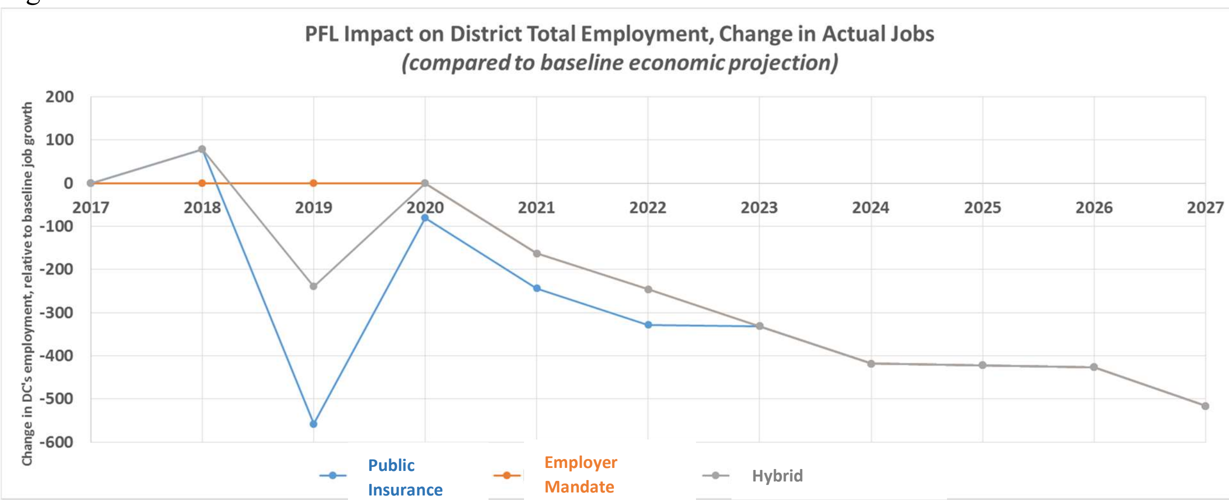
[2] The Budget Office's prior analysis of D.C. Law 21-264 assumed three possible response scenarios under both the law and the amendment act: (1) firms pass the full cost of the tax onto employees in the form of lower wages and reduced benefits; (2) firms absorb the cost by reducing hiring or raising prices charged for goods and services; or (3) half of the costs are passed onto employees and half are absorbed by firms. The impacts described in this section correspond to the scenario in which half the costs are passed onto employees and half are absorbed by firms. (Groves, MacNeil and Wolfe 2016)

III. Projected Economic and Policy Impacts of Proposed Modifications

This memo discusses the projected economic and policy impacts of three different types of benefit delivery systems proposed: (1) a public insurance program; (2) a mandate on employers; or (3) a hybrid public insurance program and private employer mandate. It also compares the projected economic conditions under the "baseline" economic forecast, in which the District does not have a paid leave program, to the projected conditions under each of the three benefit delivery approaches.[3]

Figure 1 summarizes the marginal impact of the three paid leave approaches on District total employment over the next 10 years. The impact on District total employment varies in the near term, however in 2020 the impact of the employer mandate and hybrid approaches become identical, and in 2023 the impact of all three approaches become identical. These results are discussed in more detail, below.

Figure 1



i. Public Insurance Program

D.C. Law 21-264 and Bill 22-325 would provide benefits through a public insurance system. Under D.C. Law 21-264, covered employers support a benefits fund through a 0.62% payroll tax. In comparison, Bill 22-325 would assess a 0.42% fee on employers and a 0.2% fee on employees to fund the public insurance system.

The Budget Office has determined that there would not be any measurable difference in the economic impact of D.C. Law 21-264 and Bill 22-325. A tax or fee's incidence (i.e. whether the employer or employee ends up absorbing the cost) rather than its statutory obligation determines its economic impact.[4] D.C. Law 21-264 and Bill 22-325 both use 0.62% of the covered firm's payroll to support the fund. Their economic impact would depend on the degree to which employers would pass the fee or tax onto their employees or reduce their workforce (Groves, MacNeil and Wolfe 2016). The initial incidence of D.C.

[3] In comparing the employer mandate to the other two approaches, the Budget Office applied a common set of assumptions, including that the set of benefits provided under the three approaches are equivalent and that employers pass half of the cost of providing paid family leave benefits onto their employees.

[4] The Budget Office's prior analysis of D.C. Law 21-264 assumed three possible response scenarios under both the law and the amendment act: (1) firms pass the full cost of the tax onto employees in the form of lower wages and reduced benefits; (2) firms absorb the cost by reducing hiring or raising prices charged for goods and services; or (3) half of the costs are passed onto employees and half are absorbed by firms (Groves, MacNeil and Wolfe 2016).

Law 21-264 and Bill 22-325 may be slightly different, but these variations would likely be transitory.[5] The legal distinction between a tax and a fee does not affect its economic impact.

However, D.C. Law 21-264 and Bill 22-325 differ from a policy perspective. First, employees contribute to every other state's paid family or medical leave public insurance fund. New Jersey and Puerto Rico split the obligation between employees and employers. In California and Rhode Island, employees are solely responsible for paying into the benefits fund. Thus, Bill 22-325's contribution division between employers and employees would bring the District's program in line with other states. It remains unclear if Bill 22-325 would face political and legal challenges that could delay or prevent the fee from being assessed.

ii. Employer Mandate

Bill 22-133 and Bill 22-302 both provide paid leave benefits through a mandate on employers. Rather than paying into a public insurance pool, employers are required to either compensate their employees during a family or medical leave event at the established wage replacement rate or purchase a yet-to-be-created private paid leave insurance product.

The economic model predicts that over the medium to long term, an employer mandate will have virtually the same impact on the District's economy and job market as a public insurance program. The Budget Office's economic model projects that these policies would reduce private sector job growth by 500 jobs in 2027 compared to the baseline economic scenario—a decrease that is not significant given overall employment growth in the District.[6] Both the employer mandate and the public insurance program provide the same level of paid leave benefits, reallocating an equal amount of money throughout the economy. However, over the short term, an employer mandate would not impact the local economy. A mandate would not require a period to build up the fund balance (taxes or fees are collected and no benefits are paid out), and it would not involve the creation of a new government benefits management system.[7] However, in 2023 the marginal difference in economic impact between these two approaches disappears, as shown in Figure 1, above.

No other U.S. state provides a paid family or medical leave benefit through an employer mandate, although San Francisco recently began implementing a mandate for employers to provide paid parental leave benefits beyond what California already makes available through its publicly-financed paid leave program. Thus far, no private paid family leave insurance product has come to the market in San Francisco. Berkeley, California, is also considering a similar mandate.

Research into related employer mandates and early insights from San Francisco's new mandate offer a glimpse into how an employer mandate would function in the District. Academic literature suggests that employers tend to pass the costs of mandated benefits, including maternity benefits and mandated employer-provided insurance, onto their employees and customers without impacting overall employment. This was the case in San Francisco after the city mandated firms to provide health insurance years before the Affordable Care Act came into place (Gruber 1994, Gruber and Krueger 1990, Colla, Dow and Dube 2017). In general, employer mandated benefits have been found to be more economically efficient than

[5] Substantial empirical evidence suggests that over the long run that the economic incidence of payroll taxes and social security taxes are born by employees, even when the employer is statutorily obligated to pay the tax (Brittain 1971, Melguizo and González-Páramo 2013). Further, there is some evidence that work-life initiatives increase worker satisfaction with their salaries and may increase their willingness to accept lower pay in exchange for these benefits (Baughman, DiNardi and Holtz-Eakin 2003, Gray 2002, Heywood, Siebert and Wei 2007).
[6] To put these figures in perspective, the Office of the Chief Financial Officer reported that employment in the District increased by an average of 11,039 jobs per year between 2013 and 2015.
[7] The difference in impact on total private sector employment in the District is less than 100 jobs.

public provision of a benefit because a tax-financed benefit is more likely to distort the market for employment than a mandate. However, a mandate tends to be less equitable because of the potential for employers to be biased toward hiring workers who are less likely to use the benefit, and because a mandate precludes the redistribution of resources to lower-wage workers or to employers with few employees (Summers 1989). The Organization for Economic Co-operation and Development (OECD) reports that policies which increase the cost to employers of hiring parents could lead to discriminatory and inefficient hiring outcomes (OECD 2007). Some San Francisco businesses expressed concern that the mandate may lead their competitors to discriminate against women of childbearing age in their hiring practices, but a San Francisco employment law center interviewed by the Budget Office for this memo has not received any discrimination complaints under the new law (Dow 2017, Gerry, Terman and Parish 2017).

iii. Hybrid Public Insurance Program and Employer Mandate

Bill 22-130 and Bill 22-334 create a hybrid paid leave benefits program in which smaller firms participate in a public insurance pool and larger firms are mandated to privately provide these benefits. The Budget Office found that the hybrid paid leave benefits approach would have a similar impact on the District's economy over ten years as the public insurance program and the employer mandate (see Figure 1, above).[8] The hybrid approach would collect less in taxes from businesses than under D.C. Law 21-324, because larger businesses would be assessed a lower payroll tax rate, and would also be subject to a mandate to provide the required paid leave benefits. Still, about the same amount of money (from public and private sources) would have to be obligated to support paid leave benefits as a public program or an employer mandate. Further, the District would need to build a new benefits management system under a hybrid approach. If a smaller public insurance pool costs less to administer than a larger one, local government spending could be lower under the hybrid approach than D.C. Law 21-324.[9]

The hybrid approach might result in larger employers and their workers subsidizing the cost of the paid family leave benefit at smaller firms. Under this mode, larger firms and their employees would have to pay a portion of their payroll into the public paid leave fund but would not be eligible to make withdrawals. This economic impact analysis is unable to examine these dynamics.[10]

Conclusion

The projected impact on the District's economy and job market of the three approaches to providing a paid family and medical leave impact are minimal. There are slight variations in terms of their impacts over a period of one to five years because of differences in start-up and administrative costs, however over a ten-year time horizon the model projects that the three approaches will all have virtually the same impact on the District's economy. The financial effects of each of these three approaches may differ across individual firms and employees, but in the aggregate the Budget Office predicts that they would have nearly identical economic impacts. Nevertheless, there are significant policy differences between these three approaches that warrant careful consideration.

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[8] Our analysis assumed that the hybrid paid leave benefits program would not fundamentally alter the incidence of the tax; that is, for the sake of comparison our economic model assumes that half the cost to the employer is passed onto employees—regardless of whether the employer pays a tax, is subject to a mandate, or both.

[9] For the purposes of this analysis, the Budget Office assumed that the costs to manage the public insurance pool for the hybrid approach are the same as D.C. Law 21-324, under advice from the OCFO's Office of Revenue Analysis.

[10] While the REMI model can examine economic impacts on different types of employers, it cannot be used to examine relative impacts on the basis of employer size, by number of employees, or average annual payroll.

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