WORLD Policy Analysis Center

Policy Brief

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A Review of the Evidence on Payment and Financing of Family and Medical Leave

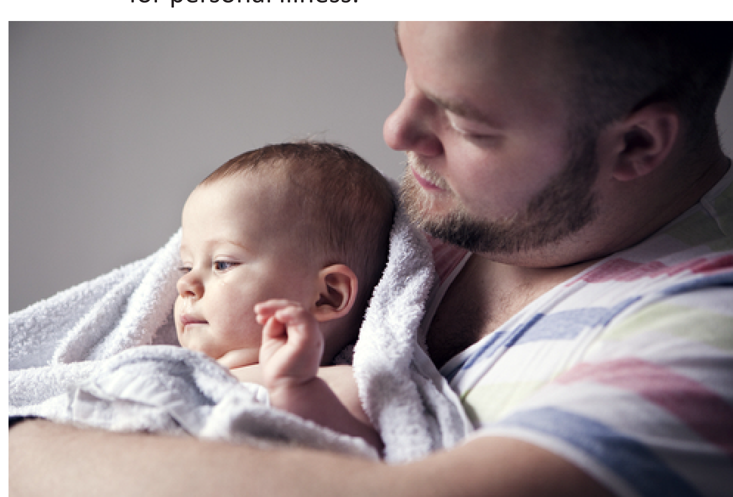
Twenty-five years ago, the United States passed the Family and Medical Leave Act (FMLA). The FMLA guarantees workers up to 12 weeks of unpaid leave for family or medical reasons, yet this unpaid leave remains unaffordable or inaccessible for millions of American workers. Many states and the federal government are currently considering paid leave policies. Given the wide range of potential policy options, it is critical to better understand what the evidence says about the most effective approaches to improving health and gender equality while supporting a strong economy. Using data from the experiences of U.S. states and other high-income countries that have paid leave, this brief examines the existing evidence on the economic feasibility and benefits of different wage replacement rate levels and financing mechanisms.

Unless otherwise cited, this brief references data from the WORLD Policy Analysis Center's analysis of paid family and medical leave policies across the Organisation for Economic Co-operation and Development (OECD). For detailed reports and more information, please visit www.worldpolicycenter.org/events-and-launches/paid-fmla.

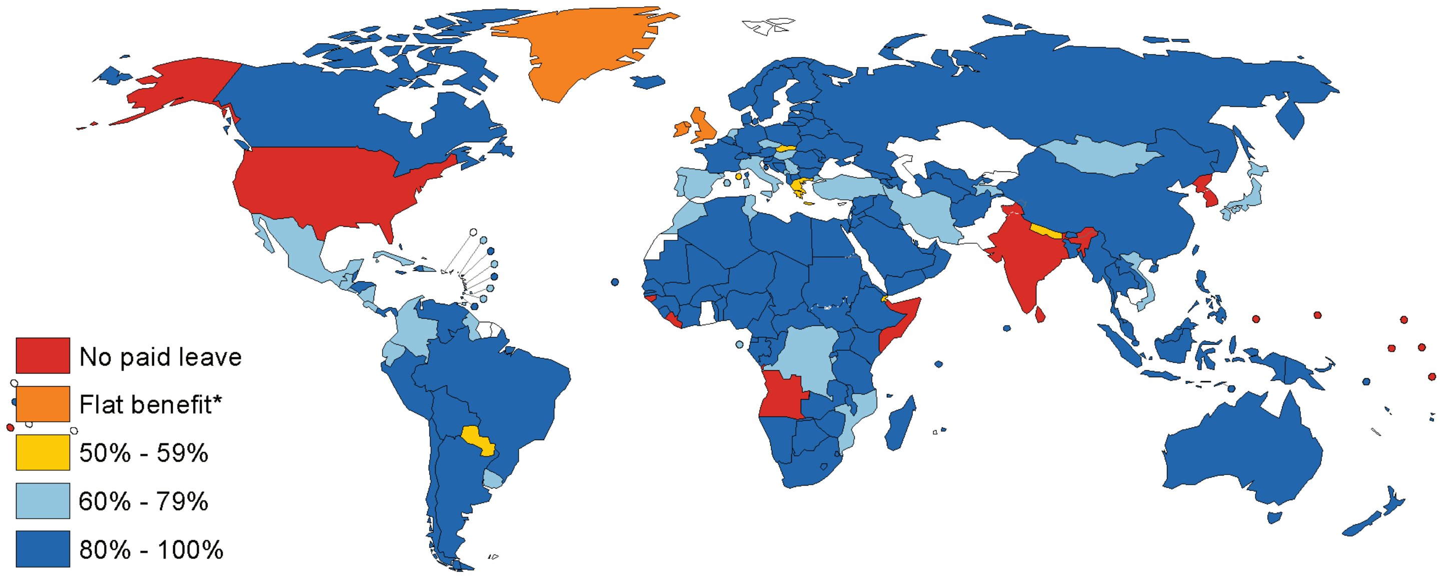
Wage Replacement Rate Levels

The best available evidence on paid leave affordability and uptake suggests that ensuring **wage replacement rates of at least 80%** is critical to addressing poverty and gender equality in taking leave:

- **Avoiding poverty**: Wage replacement schemes should ensure that benefits are high enough for average and minimum wage earners to be above the poverty line or not fall further below the poverty line.
  - Given the wages and salaries in many occupations, a wage replacement rate of 80% is necessary to keep families out of poverty. A wage replacement rate of 80% or more can also be important for middle-income families to be able to meet essential needs during paid leave, such as rent or mortgage payments.
  - A simulation model of California's paid leave program found that a single adult earning the minimum wage would fall even further below the poverty level while taking paid family leave paid at 55% of wages.[1]
  - In studies of California's paid leave program prior to the wage replacement increase, one-third of workers who knew about the program said they did not take leave when they needed it because the wage replacement rate was too low.[2]
- **Supporting gender equality**:
  - Studies from Luxembourg, Germany, and Sweden show that when leave policies do not fully replace income, decisions about who takes family leave in two-parent families may be driven by differences in income.[3-5]
  - In the U.S., as in other OECD countries, men still earn more than women on average.
  - Data on parental leave utilization from 2000 through 2015 and literature from a range of OECD countries suggest that wage replacements of at least 80% are needed for a majority of men to take leave.
- **Economic feasibility**:
  - 25 of 34 OECD countries have a maximum wage replacement rate of at least 80% for maternal leave. 19 OECD countries provide this level for paid leave for personal illness.



What is the maximum wage replacement rate of paid leave for personal illness?



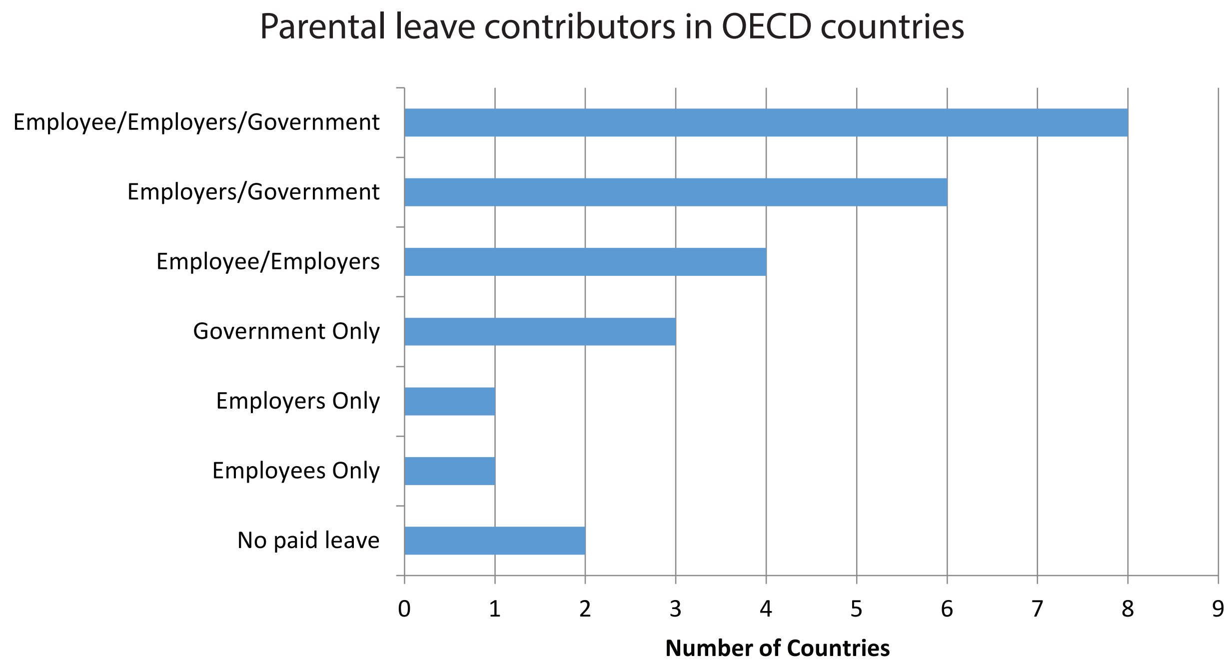
*A *flat benefit* means all workers receive the same amount while taking paid leave, regardless of previous salary.

- o 19 OECD countries have had a maximum wage replacement rate of at least 80% for maternal leave since 1995, and 15 have provided this level for paid leave for personal illness.
- o Having a maximum wage replacement rate of at least 80% is compatible with a strong national economy. There does not appear to be an association between GDP growth or unemployment and the wage replacement rate of paid leave.
- o The costs of higher wage replacement rates must also be weighed against the health and economic benefits that would result from the ability of workers at all income levels to take leave. Those who have been unable to take unpaid leave are generally those who would enjoy the greatest health benefits.

Financing

Government funding, rather than relying heavily on employers, is economically feasible with benefits for all:

- **Supports the inclusion of all workers**, including workers who are contractors, are in the informal economy, do not have enough work with any one employer to meet minimum hour requirements, have changed jobs recently, or are low-wage workers in the formal economy.
  - o 31 OECD countries make at least some paid parental leave available to self-employed mothers of infants, and 26 do so for self-employed fathers.
  - o 26 OECD countries make paid personal medical leave available to self-employed workers.
- **Small businesses**: Government funding and administration of benefits reduces the burden on small businesses.
  - o 31 OECD countries do not have opt-outs for small businesses. In the 2 countries that do, only businesses with fewer than 5 employees are excluded, and those employees can still receive voluntary coverage through the social insurance system.
- **Employees**: While most of the current U.S. state/city paid leave programs are funded either jointly by employers and employees, or entirely by employee contributions, this is a unique approach among OECD countries. The majority of countries rely on social security or public funds to provide paid parental leave with contributions most commonly from employers, employees, and government funds.
- **Economic feasibility**:
  - o Social security or public funds provide maternal leave benefits in full or in part in every OECD country except the U.S., and paid paternal leave benefits in 28 OECD countries.
  - o 30 OECD countries provide leave for personal illness solely through social security or public funds, or through a combination of employer liability and public funds.
  - o Countries that required government contributions to the cost of paid parental leave had no evident differences in GDP growth.
  - o Among countries in which paid parental leave was funded entirely by government contributions (Denmark, Norway, and New Zealand), GDP growth rates varied from 1.3% to 2.4%, and unemployment rates varied from 3.1% to 6.3%.



Data on contributors were not available for 9 countries: Chile, Israel, Japan, Republic of Korea, Luxembourg, Mexico, Slovakia, Switzerland, and Turkey.

About This Study

- **Systematic literature review** of the paid leave literature from high-income countries, including more than 5,500 studies.
  - Focused on studies that analyzed the impact of paid parental, family medical, and personal medical leave on economic, health, and gender equality outcomes.
- **Review of medical needs**: Medical experts reviewed the evidence on how paid leave can support health and recovery.
- **Study of OECD laws and policies**: Systematic analysis of the national laws and policies in place as of September 2016 for 34 OECD countries to better understand which approaches have been economically feasible.
  - Comparative measures were created on the duration, payment levels, financing mechanisms, tenure requirements, and other aspects of each paid leave policy.

For more information, download the full reports from www.worldpolicycenter.org/events-and-launches/paid-fmla.

Acknowledgments

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About WORLD: The WORLD Policy Analysis Center aims to improve the quantity and quality of globally comparative data on policies affecting human health, development, well-being, and equity. With this data, WORLD informs policy debates, facilitates comparative studies of policy progress, feasibility, and effectiveness, and advances efforts to hold decision-makers accountable.

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