



Paying for Parental Leave with Future Social Security Benefits

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A proposal is circulating that would allow new parents to receive 12 weeks of paid leave by borrowing from Social Security. The program would use the Social Security Disability Insurance (DI) benefit formula to compute leave benefits, then reduce or delay participants' future Social Security retirement benefits to offset the cost of their leave. The program would set the retirement benefit cuts or benefit withholding period to fully cover program costs for each generation of leave takers.

This brief analyzes the potential impact of such a plan. Using the Dynamic Simulation of Income Model (DYNASIM), the Urban Institute's dynamic microsimulation tool, we simulate program participation, leave payments, future Social Security retirement benefits, and Social Security's annual cash flow.

Our results show that the program would provide meaningful leave benefits to participants, replacing slightly more than half of earnings for typical new parents. In exchange, parents who take 12 weeks of paid leave through the program would have to delay their Social Security retirement benefits by 20 to 25 weeks depending on the repayment details. Participants who took one 12-week leave would lose about 3 percent of their future Social Security payments, but parents who took four 12-week leaves over their lifetime would lose 10 percent of their Social Security retirement benefits. The paid leave program would not achieve true budget neutrality, likely raising Social Security's annual costs, net of benefit offsets, about 1 percent over the long run. However, the program would accelerate by less than a year the projected date on which Social Security's trust funds run out and the system becomes unable to pay full scheduled benefits. By setting a precedent of allowing beneficiaries to borrow against their future Social Security benefits to finance nonretirement needs, however, the paid leave program

could lead to other similar programs, such as ones to finance student loan forgiveness or midcareer educational investments (Whitman, Freedman, and Emerman 2018), which could undermine Social Security's ability to ensure basic retirement security for all Americans.¹

Background

Unlike every other high-income nation, the United States does not guarantee paid leave to new mothers.² Two-thirds of women are now employed during their first pregnancy (Laughlin 2011), and those without access to paid leave must either return to work shortly after childbirth, quit their job, or take unpaid leave. Some employers provide paid maternity leave, and California, Rhode Island, New Jersey, and New York have created paid family leave programs. However, only about half of working women receive any paid leave before or after childbirth, including only about 3 in 10 working women with no more than a high school diploma (Laughlin 2011). Recent evidence shows that paid leave allows mothers to spend more time with their newborns, increases the likelihood that mothers return to work after childbirth, and reduces their risk of falling into poverty; these findings are especially true for less-advantaged women (AEI-Brookings Working Group on Paid Family Leave 2017; Isaacs, Healy, and Peters 2017).

Support for paid leave to new parents is growing. In a 2017 Pew Research Center survey, 82 percent of respondents said that mothers should receive paid leave following the birth or adoption of their child (Horowitz et al. 2017). Washington State and the District of Columbia recently passed legislation to provide paid family leave by 2020, joining the four states that already offer the benefit. Other states are considering paid family leave programs.³ These state programs generally provide about six weeks of paid leave, replace between one-half and two-thirds of pay, and are funded by employee payroll taxes. Last year, Senator Kirsten Gillibrand (D-NY) and Representative Rosa DeLauro (D-CT) introduced the Family and Medical Insurance Leave (FAMILY) Act, which would provide workers (and former workers) with up to 12 weeks of paid leave to care for a new child or sick family or to deal with their own health needs.⁴ The program would replace up to 66 percent of earnings and would be funded by a payroll tax levied on both employees and employers.

Some Republican senators are pursuing a different approach to family leave. Recent media reports indicate that Senators Joni Ernst (R-IA), Mike Lee (R-UT), and Marco Rubio (R-FL) are interested in legislation that would allow new mothers and fathers to obtain paid leave by borrowing from their future Social Security retirement benefits, although they have not yet released a proposal.⁵ Advocates argue that using Social Security to finance family leave would provide an important benefit to new parents without requiring additional taxes, raising government spending, or imposing additional costs on employers that would be transferred to workers and reduce wages.⁶

Critics maintain that using Social Security to finance paid parental leave would penalize people with large families who might take multiple leaves, ignore the needs of people with health problems and those who care for ill or disabled family members, worsen Social Security's already shaky near-term

finances, and erode new parents' future retirement security.⁷ Late-life consequences might be especially serious for mothers: Because women are more likely than men to take parental leave, they would lose a larger share of their future Social Security benefits. Poverty rates are already higher for older women than older men (Butrica, Murphy, and Zedlewski 2008), and women who interrupt their career to raise a family are especially likely to collect meager Social Security benefits that are insufficient to lift them out of poverty (Favreault 2010; 2018). Detractors also argue that the cost of raising children, including paid family leave, should be shared more broadly across society rather than being borne solely by parents.

Modeling Paid Leave

To examine the impact of a Social Security–financed paid leave program, we model the proposal outlined by Kristen Shapiro (2018), a visiting fellow at the Independent Women's Forum, making assumptions about unspecified policy details as necessary. We assume the program would begin in 2019 and that the existence of the program would not change individual behavior, employer behavior, or other policy choices.⁸ Our estimates also assume that Social Security pays all scheduled benefits, although current projections from the Social Security trustees indicate that because of the program's long-term financial shortfall, it will only be able pay 77 percent of scheduled benefits after 2034 (Board of Trustees 2017).

Using DYNASIM, we simulate participation in the paid leave program and leave payments, and we compare future Social Security retirement benefits and Social Security's annual cash flow with and without a paid leave program. DYNASIM starts with a representative sample of individuals and families and ages them year by year, simulating key demographic, economic, and health events. For example, the model projects that in each year, some people in the sample get married, have a child, or find a job. DYNASIM projects that other people become divorced or widowed, stop working, begin collecting Social Security, become disabled, or die. These transitions are based on probabilities generated by carefully calibrated equations estimated from nationally representative household survey data. The equations account for important differences in how likely various experiences are depending on gender, education, earnings, and other characteristics. Other equations in DYNASIM project such outcomes as annual earnings, savings, and household wealth.

The model combines program rules with projections of annual and lifetime earnings, disability status, and death to project Social Security payroll taxes, income taxes, and Social Security benefits for each person. DYNASIM aggregates individual tax payments and benefit receipt to simulate trust fund revenues, benefit payments, and balances. For more information about DYNASIM, see Urban Institute (2015) and Favreault, Smith, and Johnson (2015).

The simulated impact of paid family leave depends on how the program is structured and what we assume about program participation. The following sections describe how the program would define leave benefits, how we simulate program participation, and how the program would reduce or withhold Social Security retirement benefits to cover costs.

Defining the Leave Benefit

Following Shapiro's proposal, we set the benefit at 12 weeks of paid leave for the birth or adoption of a child.⁹ Both mothers and fathers could collect paid leave, but the program would not cover leave to deal with one's own health problems or to care for family members with health problems. The program would not guarantee that all participants who left their job after childbirth could return to it.¹⁰ We assume that people could collect paid leave for more than one birth or adoption, but we cap the benefit at four leaves.¹¹

The program would use Social Security's progressive disability benefit formula to compute a participant's leave payment, but people could qualify for the leave benefit after one year of Social Security-covered employment as long as they were employed for at least six months within the past 10 years. These eligibility rules are less strict than the rules for qualifying for DI. Leave payments would increase with lifetime earnings, but because the disability benefit formula is progressive, the leave payment would replace a larger share of lifetime earnings for program participants with lower lifetime earnings than for those with higher lifetime earnings.

Deferring Retirement Benefits for Leave Program Participants

Shapiro's proposal requires that people who receive Social Security-financed paid leave repay Social Security by deferring their future retirement benefits or accepting reduced payments. The program could implement repayment in various ways; we model two possibilities. The first (and more likely) approach would be for Social Security to raise the age at which program participants could collect full retirement benefits, now 67 for people born after 1959. This approach would permanently reduce retirement benefits by a small percentage for each month that the paid leave program raised the full retirement age (FRA) for participants. Following the actuarial reduction schedule built into the current benefit structure, we assume that monthly benefits would fall about 0.5 percent for every month Social Security raised the FRA for leave takers.¹² Of course, program participants could delay claiming retirement benefits to fully offset the monthly benefit cut. (Social Security could also raise the early entitlement age, currently 62, in addition to raising the FRA, so that leave takers would be unable to collect retirement benefits at age 62, but we do not model that option.)

A second approach would withhold all initial Social Security retirement benefits to cover leave costs. This approach would require participants to wait to collect benefits, which can create financial hardship for people who develop health problems or lose their jobs as they approach retirement (Johnson, Mermin, and Murphy 2007). Once participants begin receiving retirement benefits, however, their monthly benefit would equal what they would have collected if they had not received a parental leave benefit.

Participants could not choose between these two repayment approaches; the program would establish one option or the other.

Simulating Program Participation

Anticipating how parents might respond to a paid leave program financed through deferred or reduced Social Security benefits is difficult because such a program has never existed. As in most voluntary public programs (Currie 2006; Ebenstein and Stange 2010), participation will fall far short of 100 percent, especially because the program would replace only a fraction of participants' earnings and because some workers might fear that taking parental leave could weaken their relationship with their employer and jeopardize their job (Appelbaum and Milkman 2011; Silver et al. 2016).

Experience from state paid leave programs can inform our participation assumptions. Based primarily on outcomes in California (Appelbaum and Milkman 2011),¹³ which has a large and diverse population and a more mature state leave program than New Jersey, New York, or Rhode Island, we estimate a 33 percent overall take-up rate for new parents in our intermediate scenario (table 1). Actual participation in the plan could well fall short of this estimate: The proposed program's requirement that participants forfeit future retirement benefits could keep participation well below the rate observed for California, which does not require participants to offset the cost of their paid leave. Because of the uncertainty surrounding take-up, we also estimate program impacts under a low take-up scenario, which assumes that 24 percent of new parents participate, and a high take-up scenario, which assumes that 50 percent of new parents participate.

TABLE 1

Assumed Take-Up Rates for Covered Parents in the Middle 40 Percent of the Income Distribution (%)

By take-up scenario

	Intermediate	Low	High
All	33	24	50
Mothers			
<i>with access to employer-sponsored paid leave or state paid leave program</i>	30	20	45
<i>without access to employer-sponsored paid leave or state paid leave program</i>	50	40	75
Coresident fathers			
<i>with access to employer-sponsored paid leave or state paid leave program</i>	15	10	25
<i>without access to employer-sponsored paid leave or state paid leave program</i>	30	20	45

Source: Authors' estimates.

Notes: Reported rates are for parents eligible for the leave program in the middle 40 percent of the income distribution and are for the third year of the program and beyond. Assumed take-up rates are 2.5 percent lower than shown for the bottom 30 percent of the income distribution and 2.5 percent higher for the top 30 percent. Take-up rates are also assumed to be 20 percent lower than shown in the first year of the program and 10 percent lower in the second year.

Our estimated participation rates vary with sex, income, and access to other leave programs. Consistent with experience in state programs, we estimate that take-up rates would be higher for

mothers than for fathers, somewhat higher for high-wage parents than for low-wage parents, and lower for people with access to employer-sponsored paid leave or a state paid leave program than for those without (Appelbaum and Milkman 2011; Dunford 2017; Employment Development Department, State of California n.d.; New Jersey Department of Labor and Workforce, Development Office of Research and Information 2017; Pihl and Basso n.d.; Silver et al. 2016). Relatively few workers have access to paid parental leave: Only four states have public paid leave programs, and only 15 percent of civilian workers had access to paid family leave through their employer in 2017 (Bureau of Labor Statistics 2017), and that share was much lower among low-wage and part-time workers. Twenty-six percent of civilian workers had access to employer-sponsored short-term disability benefits in 2017 (Bureau of Labor Statistics 2017), which often cover parental leave.

We also estimate that take-up is 20 percent lower in the program's first year and 10 percent lower in its second year, because knowledge of the program is likely to be limited in the first few years after it begins (Appelbaum and Milkman 2011; Dunford 2017; Silver et al. 2016).

Achieving Cohort Budget Neutrality

The proposed paid leave program would reduce or delay retirement benefits for participants enough to offset the overall cost of paid leave benefits. We assume that the leave program sets retirement benefit offsets so that the expected present value of offsets equals the expected present value of leave benefits for every five-year birth cohort. Our simulations apply the offsets to scheduled Social Security benefits, although unless Congress fixes the system's long-term funding problem, the program will only be able to pay 77 percent of benefits after 2034. Following the Social Security trustees' intermediate assumptions, we use a nominal annual interest rate of 5.3 percent (equivalent to a 2.7 percent real interest rate) to compute present values.¹⁴ The analysis computes benefits and offsets for cohorts born in 1978 and later, but we focus on offset estimates for cohorts between 1996 and 2005, who would be eligible for the program for most of their childbearing years and whose lifetime benefits and benefit offsets can be modeled within DYNASIM's projection period or can be reasonably extrapolated.

Some program participants may have difficulty reimbursing Social Security because they will never receive Social Security retirement benefits or because they will develop health problems and receive DI benefits before qualifying for Social Security retirement benefits. According to data from Social Security's cohort lifetables, 6.5 percent of women and 10.1 percent of men age 25 in 2017 will die before they reach age 62 and qualify for Social Security retirement benefits (Board of Trustees 2017). Another 3.4 percent of women and 5.5 percent of men will die between ages 62 and 67, perhaps before they claim Social Security. A small share of leave program participants would not work long enough to qualify for Social Security. Although the leave program would require only one year of covered employment, collecting Social Security retirement benefits requires 10 years of covered employment or a qualifying marriage to someone with 10 years of covered employment. In 2010, 4 percent of older Americans were not eligible for Social Security retirement benefits (Whitman, Reznik, and Shoffner 2011). Finally, among people age 25 in 2017, about 16 percent of women and 17 percent of men who survive to age 66 will receive DI benefits at that age.¹⁵ Combining these overlapping groups, our

DYNASIM estimates indicate that about one-quarter of people who take the proposed parental leave benefit would be unable to pay back the leave through reduced retirement benefits or have difficulty doing so given the financial challenges that confront many people with disabilities (Favreault, Johnson, and Smith 2013).¹⁶

Program participants who do not pay back their leave payments raise the cost of the program for those who do. We assume that the leave program would not collect any repayment from participants who fail to qualify for Social Security or from the estates or survivor benefits of participants who die before reaching retirement age. We consider two alternatives for the treatment of leave takers who later collect DI. Under the approach in which the leave program reduces monthly Social Security retirement benefits by raising the FRA for participants, we assume that participants receiving DI would not repay the leave program, because DI benefits automatically convert to retirement benefits when beneficiaries reach the FRA; benefit payments are unchanged. Under the approach in which the leave program withholds initial Social Security retirement benefits from program participants, we examine an option under which initial DI benefits are also withheld from DI beneficiaries and an alternative under which DI beneficiaries do not reimburse the system.¹⁷

Results

We estimate the distribution of leave benefits provided by the program, the number of participants, program spending, future Social Security retirement benefits for participants, and the program's impact on Social Security's finances.

Leave Payments

The proposed program would provide meaningful leave benefits to new parents. In 2025, payments for the 12-week leave period would average \$4,300 in 2018 dollars, including \$4,000 for women and \$5,100 for men (table 2). Overall, one-quarter of participants would receive more than \$5,430 over the 12 weeks, and another quarter would receive less than \$3,020. Leave payments would increase with income, but the progressive DI benefit formula used to compute payments would narrow income differences. Participants in the top fifth of the adult income distribution would receive about twice as much as those in the bottom fifth. Most program participants, however, would be in the bottom two fifths of the adult income distribution because most new parents are relatively young and thus earn lower salaries.

TABLE 2

Distribution of Leave Benefits during the 12-Week Leave Period, 2025 (\$)*By sex and household-size-adjusted income quintile (inflation-adjusted 2018 dollars)*

	Average	25th percentile	50th percentile (median)	75th percentile
All	4,300	3,020	3,920	5,430
<i>By quintile</i>				
Bottom	3,210	2,550	3,140	3,790
Second	4,070	3,140	3,930	4,800
Middle	4,720	3,460	4,660	5,730
Fourth	5,540	4,300	5,400	6,950
Top	5,980	4,660	6,260	7,500
Women	4,000	2,860	3,580	4,970
<i>By quintile</i>				
Bottom	3,010	2,300	2,950	3,570
Second	3,880	3,060	3,590	4,500
Middle	4,390	3,200	4,110	5,430
Fourth	5,280	4,070	5,090	6,700
Top	5,640	4,080	5,700	7,330
Men	5,100	3,780	4,910	6,500
<i>By quintile</i>				
Bottom	3,980	3,200	3,690	4,610
Second	4,510	3,770	4,320	5,270
Middle	5,510	4,040	5,450	6,580
Fourth	6,050	4,750	5,960	7,360
Top	6,850	5,950	6,940	7,690

Source: Authors' estimates from DYNASIM.**Notes:** Estimates are from the intermediate take-up scenario and are rounded to the nearest \$10. Income quintiles are defined over the adult population, not the leave-taking population.

For typical participants, the leave program would replace slightly more than half of earnings. In 2025, the median replacement rate, defined as the 12-week leave payment divided by the average 12 weeks of earnings over the past calendar year, would be 54 percent (table 3).¹⁸ Because the benefit formula is progressive, replacement rates generally increase as income falls. The 2025 median replacement would be 59 percent for women and 46 percent for men. The median replacement rate for participants in the bottom fifth of the overall income distribution would be about one and a half times higher than for those in the top fifth of the income distribution.

TABLE 3

Distribution of the Share of Earnings Replaced by the Leave Benefit, 2025 (%)*By sex and household-size-adjusted income quintile*

	25th percentile	50th percentile (median)	75th percentile
All	38	54	81
<i>By quintile</i>			
Bottom	45	65	85
Second	41	53	74
Middle	34	52	80
Fourth	30	47	71
Top	27	41	69
Women	40	59	83
<i>By quintile</i>			
Bottom	49	68	87
Second	41	57	83
Middle	36	51	87
Fourth	32	47	73
Top	27	46	81
Men	32	46	65
<i>By quintile</i>			
Bottom	37	54	82
Second	39	48	63
Middle	27	52	75
Fourth	29	42	62
Top	23	37	46

Source: Authors' estimates from DYNASIM.

Notes: Estimates are from the intermediate take-up scenario and are restricted to program participants w. Income quintiles are defined over the adult population, not the leave-taking population.

Program Participation and Spending

Our intermediate take-up scenario projections indicate that in the program's first year, 1.2 million parents would collect parental leave benefits through the program (table 4). Women would file more than twice as many claims as men. By 2060, the projected number of annual paid leave beneficiaries would reach almost 2 million. Under the low take-up scenario, just under 1 million parents would receive benefits in 2019, and 1.4 million would collect benefits in 2060. The high take-up scenario projects that the number of parents claiming leave benefits will reach nearly 2 million in 2019 and climb to nearly 3 million by 2060.

TABLE 4

Projected Number of Paid Leave Recipients, 2019–2065 (millions)*By sex and take-up scenario*

	Intermediate			Low			High		
	All	Women	Men	All	Women	Men	All	Women	Men
2019	1.23	0.94	0.29	0.92	0.71	0.20	1.98	1.53	0.45
2020	1.54	1.19	0.35	1.12	0.89	0.23	2.30	1.71	0.59
2025	1.78	1.30	0.48	1.31	1.00	0.30	2.69	1.94	0.75
2030	1.68	1.22	0.47	1.22	0.91	0.31	2.62	1.92	0.70
2035	1.88	1.41	0.46	1.38	1.08	0.30	2.75	2.02	0.73
2040	1.84	1.35	0.49	1.36	1.04	0.32	2.80	2.01	0.80
2045	1.85	1.35	0.50	1.34	1.00	0.34	2.85	2.03	0.82
2050	1.83	1.34	0.49	1.32	0.98	0.34	2.79	2.02	0.77
2055	1.85	1.33	0.52	1.35	0.99	0.35	2.81	2.03	0.78
2060	1.96	1.46	0.50	1.44	1.12	0.33	2.98	2.19	0.79

Source: Authors' estimates from DYNASIM.

In aggregate, our intermediate take-up scenario projections indicate that the leave program will distribute benefits worth nearly \$5 billion in 2019, \$17.2 billion in 2040, and \$36.7 billion in 2060 (table 5). Relative to the intermediate scenario, total benefits paid by the program would be about one-quarter less under the low take-up scenario and about 50 percent higher under the high take-up scenario.

TABLE 5

Projected Total Annual Leave Benefits Paid, 2019–2065 (\$ billions)*By take-up scenario*

	Intermediate	Low	High
2019	4.9	3.7	7.9
2020	6.6	4.7	9.9
2025	9.2	6.7	14.0
2030	10.5	7.5	16.6
2035	14.4	10.5	21.3
2040	17.2	12.5	26.0
2045	21.1	15.3	31.9
2050	24.5	17.5	37.0
2055	29.8	21.4	45.1
2060	36.7	26.9	56.1

Source: Authors' estimates from DYNASIM.

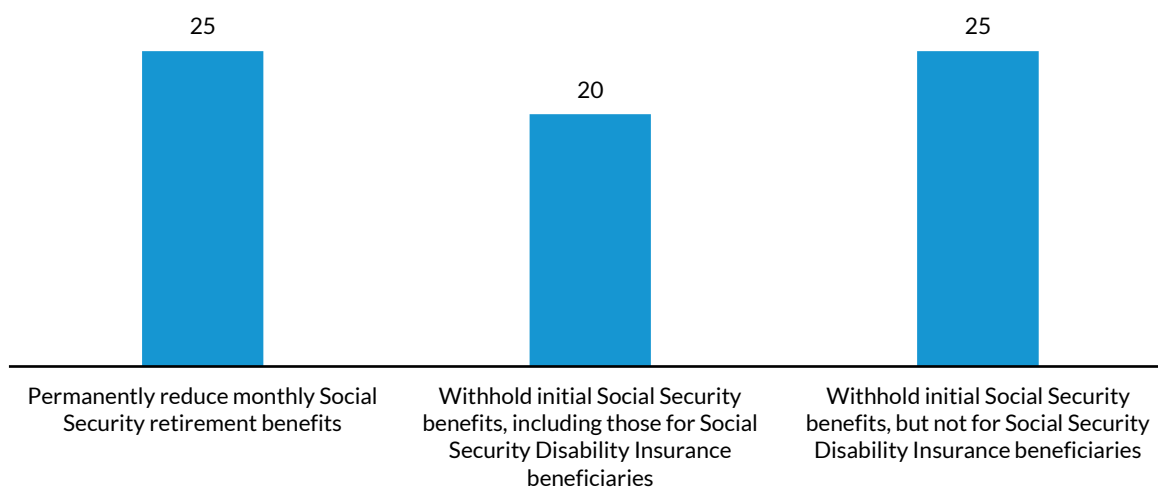
Notes: Estimates are in current dollars.

Impact on Future Retirement Benefits

Our projections show that participants in the proposed leave program would have to delay collecting Social Security retirement benefits for about twice as many weeks as they collected paid leave. Under our first approach, the proposed program would finance leave payments by permanently reducing participants' future monthly Social Security retirement benefits (figure 1). As mentioned, we assume that under this approach, the program would not seek reimbursement from DI beneficiaries, because DI benefits automatically convert to retirement benefits when beneficiaries reach the FRA; benefit payments are unchanged. The cut in participants' Social Security retirement benefits necessary to achieve cost neutrality would be equivalent to a 25-week increase in the FRA. (By waiting 25 weeks to claim their Social Security retirement benefits, participants could collect the same monthly benefit check that they would have received if they had not taken paid parental leave.) This estimate is much higher than the preliminary estimate Shapiro (2018) reports.

FIGURE 1

Projected Delay in Retirement Benefits and Its Equivalent for a 12-Week Paid Parental Leave (weeks)
Intermediate take-up scenario, participants born in 1996 through 2005



Source: Authors' estimates from DYNASIM.

Notes: Estimates are averaged across cohorts born between 1996 and 2005, who would be eligible for the program for most of their childbearing years and whose lifetime benefits and benefit offsets can be modeled within DYNASIM's projection period or can be reasonably extrapolated. For the option in which the program permanently reduces participants' monthly Social Security retirement benefits, the chart shows the number of weeks that participants would have to delay claiming Social Security to obtain the same monthly benefits as they would have collected if they had not taken paid leave.

If the program instead financed past leave payments by withholding participants' initial Social Security retirement benefits, we estimate that the program would withhold 20 weeks of Social Security for each 12-week leave payment (assuming the program also would also withhold DI benefits for participants who eventually claimed DI). If, perhaps more realistically, the program were to exempt DI

beneficiaries from having to self-finance their paid leave, the cost of their leave would shift to participants who did not collect DI, and the program would have to withhold 25 weeks of Social Security retirement benefits to achieve cost neutrality.

Because offsets are calculated so that the program pays for itself for each five-year birth cohort, estimated offsets vary somewhat across cohorts. These estimates are averages across cohorts born between 1996 and 2005, who would be eligible for the program for most of their childbearing years and whose lifetime benefits and benefit offsets can be modeled within DYNASIM's projection period or can be reasonably extrapolated.

Participants in the parental leave program would have to forfeit future Social Security retirement benefits for longer than they collected paid leave because interest would accumulate on their implicit loan for decades. The implicit interest rate charged by the program would be much lower than available private market rates (if new parents could obtain a private loan at all) because interest earned by the Social Security trust funds is tied to the low interest rates for long-term government bonds. However, because most people have children in their twenties and thirties and collect Social Security in their early sixties, interest on the leave loan would accrue for 30 or more years. Covering paid leave for the roughly one-quarter of parents who would be unable to reimburse Social Security because of disability, premature death, or inadequate employment histories adds to the costs. Our estimates would be even higher if Congress reduces scheduled Social Security benefits to close the program's long-term financing gap.

For participants born between 1991 and 2000, annual benefit cuts would average \$430 in 2018 inflation-adjusted dollars if the program permanently reduced their Social Security benefits (table 6). Cuts would be applied for an average of 25 years. Fathers who participate in the program would forfeit more Social Security retirement benefits than mothers, consistent with their average higher leave benefits. Participants who take multiple paid leaves would also forfeit more retirement benefits than those who take only one paid leave. Benefits would be reduced by \$1,310 for those with four paid leave spells compared with only \$340 for those with one paid leave spell. Estimated median benefit losses are somewhat lower.

Program participants would forfeit an average of \$8,740 in future Social Security retirement benefits if the program were to withhold initial Social Security benefits for all participants, including DI beneficiaries. That average rises to \$11,170 if the program would exempt DI beneficiaries from benefit withholding.

TABLE 6

Reduction in Social Security Retirement Benefits for Leave Program Participants*By repayment option, participants born between 1991 and 2000*

	PERMANENTLY CUT MONTHLY BENEFITS				WITHHOLD INITIAL BENEFITS, INCLUDING DI		WITHHOLD INITIAL BENEFITS, EXCEPT DI	
	Annual Benefit Cut (\$)		Duration of Cuts (years)		Total Lost Benefits (\$)		Total Lost Benefits (\$)	
	Average	Median	Average	Median	Average	Median	Average	Median
All	430	310	25	27	8,740	7,910	11,170	5,770
Women	400	290	26	27	8,230	7,430	10,520	9,490
Men	510	370	24	25	10,000	9,620	12,780	12,290
Number of leaves								
1	340	269	24	25	8,000	7,620	10,220	9,740
2	700	531	25	26	11,230	9,850	14,350	12,580
3	860	644	26	27	10,440	8,490	13,340	10,850
4	1,310	1,138	25	26	11,760	11,870	15,030	15,170

Source: Authors' estimates from DYNASIM.

Notes: Estimates are from the intermediate take-up scenario. Dollar amounts are inflation-adjusted 2018 dollars. The table shows the total amount of Social Security retirement benefits withheld under the options that withhold initial Social Security benefits and the reduction in initial annual benefits for the option that permanently reduces monthly benefits.

The parental leave program would erode participants' retirement security. If the program permanently reduced participants' monthly Social Security retirement benefits, the median decline in participants' lifetime Social Security retirement benefits would be 3.2 percent (table 7). If the program withheld initial Social Security benefits, the median decline in participants' lifetime Social Security retirement benefits would be 2.4 percent if the program withheld DI benefits and 3.1 percent if the program did not withhold DI benefits. Lifetime retirement benefits would fall much more for participants who take multiple paid parental leaves. Under the option that finances paid leave by permanently reducing monthly Social Security benefits, the median decline in lifetime Social Security retirement benefits would be nearly 10 percent for the small minority of participants who take four paid leaves.

TABLE 7

Median Percent Reduction in Social Security Retirement Benefits for Leave Program Participants*By repayment option, participants born between 1991 and 2000*

	Permanently cut monthly Social Security benefits	Withhold Initial Social Security Benefits	
		Including Social Security Disability Insurance	Not including Social Security Disability Insurance
All	3.2	2.4	3.1
Women	3.2	2.3	3.0
Men	3.2	2.6	3.3
Number of leaves			
1	3.2	2.2	2.8
2	5.5	4.3	5.4
3	7.2	6.1	7.8
4	9.6	8.3	10.6

Source: Authors' estimates from DYNASIM.

Notes: Estimates are from the intermediate take-up scenario. The table shows the percent reduction in lifetime Social Security retirement benefits.

Parental leave benefits would flow fairly evenly to people across the income distribution (table 8). Roughly one-fifth of benefits would go to parents in each of the income quintiles. Lower-income workers, in contrast, would account for a smaller share of the total benefit offsets than higher-income workers because lower-income workers have higher rates of mortality and disability and their earnings tend to grow more slowly as they age. Whether the program offsets the cost of paid leave by initially withholding retirement benefits or cutting monthly retirement benefits affects how these offsets are distributed between low- and high-income participants. Middle-income groups bear a disproportionate share of total offsets when they are applied monthly. A higher share of benefit offsets are paid by higher-income people when offsets are levied early in retirement.

TABLE 8

Distribution of Parental Leave Benefits and Benefit Offsets by Income Quintile (%)*Intermediate take-up scenario, participants born between 1991 and 2000*

	Leave benefit	Permanently cut monthly Social Security	Withhold Initial Social Security Benefits	
			Including Social Security Disability Insurance	Not including Social Security Disability Insurance
Bottom	21.9	8.4	13.5	12.1
Second	18.8	26.6	14.8	13.1
Middle	19.6	27.3	19.2	19.1
Fourth	20.9	23.2	27.9	29.1
Top	18.9	14.3	24.6	26.6

Source: Authors' estimates from DYNASIM.

Notes: Income quintiles are defined over the adult population, not the leave-taking population.

Impact on Social Security's Cash Flow

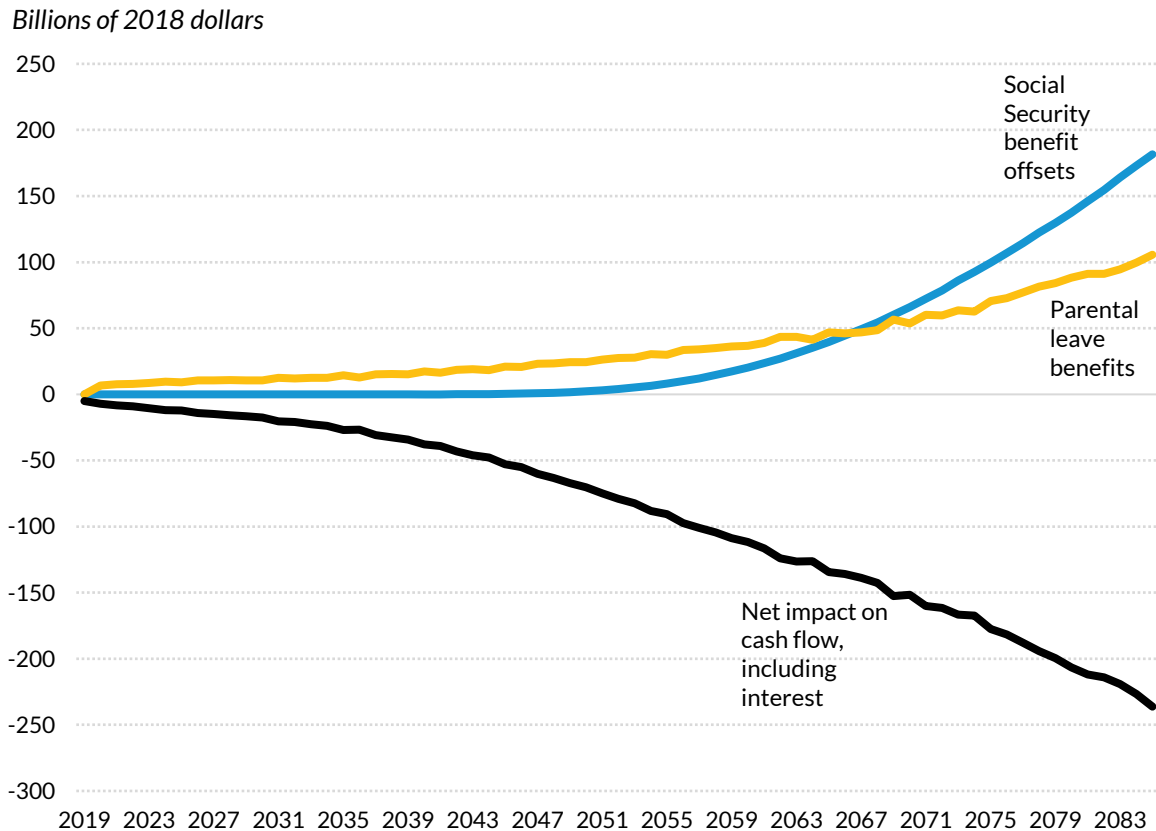
The paid leave program would worsen Social Security's cash flow throughout the projection period (figure 2). Leave benefits would be paid out immediately, but savings on reduced retirement benefits would not materialize for several decades and leave benefits would continue to accumulate. Consequently, the program would run a deficit every year until it stops paying out benefits. If the program permanently cut participants' future monthly Social Security benefits, our intermediate take-up scenario projections show that in 2025, the leave program would pay \$10 billion in leave benefits without any Social Security benefit offsets, worsening the system's cash flow. In 2050, the program would pay out \$24 billion in leave benefits with only \$2 billion in offsets. The impact on Social Security's annual cash flow would far exceed the difference between leave payments and retirement benefit offsets because substantial interest would accrue on the accumulated deficit. In 2050, the program's annual interest payments would be nearly twice as high as annual payments to leave participants. Annual Social Security benefit offsets would first exceed annual leave payments around 2067, but the surplus would not be large enough to cover annual interest payments. Every year, then, the program would pay more in leave benefits and interest than it would save in retirement benefit offsets. Although each generation would fully cover the cost of the paid leave it collected, the leave program would not achieve budget neutrality (i.e., retirement benefit offsets covering all program outlays) until the program ceased providing leave benefits and realized all benefit offsets.

The cash flow losses would be modest relative to the size of the Social Security system because the leave program would be relatively small. Under our intermediate take-up scenario, the additional Social Security expenditures generated by the program would raise Social Security's total costs only 1.4 percent in 2050 and 1.1 percent in 2080 (if Social Security pays benefits scheduled under current law). The program would accelerate the projected date of trust fund exhaustion by less than a year.

FIGURE 2

Impact of the Proposed Paid Leave Program on Social Security's Annual Cash Flow (\$ billions)

Intermediate take-up scenario



Source: Authors' estimates from DYNASIM.

Notes: Estimates are for the version of the paid leave program that would permanently reduce monthly Social Security retirement benefits for participants. The analysis assumes that participants who collect Social Security Disability Insurance benefits, never qualify for Social Security retirement benefits, or who die before collecting retirement benefits do not pay back any of their leave benefits.

Conclusions

A paid parental leave program would provide important benefits to new mothers and fathers by promoting continued employment, allowing parents to spend more time with their newborn or adopted children, and providing families with added financial security. Our projections show that a parental leave program that allowed new parents to borrow from their future Social Security retirement benefits would typically replace slightly more than one-half of earnings for new parents. If each generation were to fully cover program cost, the program would have to withhold participants' future Social Security retirement benefits for about twice as many weeks as they spent on paid leave or permanently reduce participants' monthly Social Security benefit payments. Participants who take 12 weeks of paid leave

would experience a 3 percent decline in lifetime Social Security retirement benefits, but losses would be significantly higher for people with larger families who take multiple leaves. These estimates assume that the program would not receive reimbursement from the roughly one-quarter of participants who die before reaching retirement age, receive DI benefits, or never work enough to qualify for Social Security retirement benefits, raising costs for other participants.

Although the parental leave program could require each cohort to fully cover the cost of leave payments through future retirement benefit offsets, it would not achieve true budget neutrality. The program would run a cash deficit each year the program paid benefits and would not recoup all program costs until retirement benefit offsets for the last parental leave participant had been realized. Because the leave program would likely be only a fraction of the size of the full Social Security system, it would raise system outlays, net of benefit offsets, only about 1 percent per year.

Our estimates are necessarily uncertain because they depend on how trends in employment, earnings, fertility, disability, and mortality will play out over several decades. Modeling a paid parental leave program financed with Social Security benefit offsets is especially difficult because such a program has never existed. It is unclear how many new parents will participate, how employers will react, or whether other leave options would disappear. We assume that employers would not change their benefit packages if a national paid leave program were created, but some employers might eliminate their paid leave benefits, and some states might modify or even phase out their family leave programs. Our analysis uses parameters that policymakers will likely adjust as they continue to refine these proposals. Further, most benefits will be paid back after the Social Security trustees project that the trust funds will be exhausted. If Congress cuts benefits to close the system's funding gap, the leave program would have to extend the retirement benefit deferral period to maintain budget neutrality.

Our simulations do not account for the possibility that access to parental paid leave could allow new mothers to keep their jobs and raise their earnings after their leave. Evidence from California and New Jersey suggests that paid leave laws increase women's employment in the months surrounding a birth (Baum and Ruhm 2016; Byker 2016). If the proposed paid leave program substantially raises mothers' earnings, participants could accrue more Social Security retirement benefits, partly offsetting the retirement benefit cuts built into the parental leave program. Their additional earnings would also generate income tax revenue, helping ease pressure on government budgets. Nonetheless, how much the leave program would raise lifetime earnings is unclear.

As concern grows about the financial security of future generations of retirees, justifying programs that divert resources from retirement is difficult. In the coming decades, the share of workers entering retirement with traditional employer-sponsored pensions that provide a guaranteed income stream will continue to shrink. The majority of workers will have access to employment-based retirement accounts through which they can save for their old age, but many people dip into these savings during their working lives to meet current financial needs, leaving less for retirement (Argento, Bryant, and Sabelhaus 2014; Bryant, Holden, and Sabelhaus 2011; Munnell and Webb 2015). As mortgage refinancing becomes more popular, more people are entering retirement with outstanding mortgages, forcing them to spend some of their retirement income on mortgage payments (Butrica and Mudrazija

2018). Rising out-of-pocket spending on medical care and long-term services and supports represents another drain on retirees' resources (Favreault and Dey 2015; Hatfield et al. 2018). Johnson and colleagues (2018) concluded that Gen Xers and millennials will be less able than previous generations to maintain their preretirement living standards when they stop working. Any Social Security benefit cuts that might be made to close the system's long-term financing gap would further darken the financial outlook for future retirees.

The proposed parental leave program would not necessarily permanently reduce participants' retirement security. If the paid leave program financed parental benefits by withholding initial benefits, participation would not affect retirement benefits after the withholding period, and if the program permanently reduced monthly Social Security retirement benefits, participants could offset the benefit cut by claiming benefits later. Many workers, however, end up retiring earlier than they expected, and three-quarters of employed adults ages 51 to 55 develop a work disability or new chronic condition or lose their job by age 62, limiting their ability to work longer and defer Social Security benefits unless their health problems are serious enough for them to receive DI (Johnson, forthcoming).

Is Social Security the right mechanism to finance parental leave? Deferring repayment of the leave loan for decades significantly raises borrowing costs, requiring participants to forgo Social Security retirement benefits for about twice as many weeks as they spent on paid leave. Diverting Social Security revenue to parental leave would worsen the system's cash flow, even if the program was designed to be budget neutral for particular birth cohorts. The financial impact on Social Security would likely be modest in percentage terms, but the system's existing funding challenges make the proposal risky. Further, most leave benefits would be repaid after the system is projected to become insolvent, and if Congress responds by modifying the Social Security benefit formula, any estimates about the leave program's required withholding period would be outdated and potentially difficult to adjust for workers already losing benefits. The program would provide significant subsidies to participants who cannot repay their leave benefits in retirement because of death, disability, or inadequate work histories. Should other parents participating in the program bear those costs alone, or should they be shared more broadly, especially considering that children's future contributions will be shared broadly by society? If costs are not shared, would those new parents with relatively high chances of receiving a subsidy be more likely to participate than those anticipating paying a subsidy, further lengthening the Social Security withholding period?

Using Social Security to finance parental leave benefits raises fundamental questions about the Social Security system itself. It was designed as a social insurance program to provide basic retirement income and insure people against the financial risks associated with becoming widowed, orphaned, or disabled. Allowing people to borrow against their future retirement benefits to meet needs at younger ages would fundamentally change the program from a social insurance program to a forced saving program. Allowing people to use future Social Security benefits to finance parental leave could invite proposals to use the program to meet other pressing needs. Representative Tom Garrett (R-VA), for example, has proposed that people could pay off part of their student loan debt by accepting reduced

future Social Security benefits. Diverting Social Security to cover nonretirement needs could significantly erode retirement security.

A strong case can be made for guaranteeing parents paid leave. Having a child is expensive, in terms of both out-of-pocket expenses (Lino et al. 2017) and lost wages (Favreault, Butrica, and Mudrazija, forthcoming). The United States is alone among wealthy countries in its meager support for new parents. Society depends on children's future productivity, which is essential for economic growth and the financial stability of pension and health programs, yet many of the costs of raising children remain private, offset only mildly by such policies as tax deductions and tax credits and very indirectly through Social Security spouse and survivor benefits. Should we ask parents to self-finance investments in the next generation by borrowing from their retirement, or should we assume greater collective responsibility, as other high-income nations do? Collective underinvestment in children and parents could cost society in the long run if it reduces parental attachment to the labor force and children lack the resources they need to realize their potential. Recent interest in the paid leave proposals suggests that the debate will continue.

Notes

¹ [Student Security Act of 2017](#), H.R. 4584, 115th Cong. (2017).

² Of the 170 countries covered by a recent International Labor Organization study, only the United States and New Guinea do not guarantee any type of cash benefits to new mothers (Addati, Cassirer, and Gilchrist 2014).

³ ["Paid Family Leave Resources,"](#) National Conference of State Legislatures, last updated January 10, 2018.

⁴ [FAMILY Act](#), H.R. 947, 115th Cong. (2017), and [FAMILY Act](#), S. 337, 115th Cong. (2017).

⁵ Tyrone Richardson, ["Senate Republicans Readying Paid Family Leave Bill,"](#) *Daily Labor Report*, February 7, 2018; Tara Siegal Bernard and Claire Cain Miller, ["Why a Republican Plan for Paid Leave Has Stirred Concern about Social Security,"](#) *New York Times*, February 20, 2018.

⁶ Carrie Lukas and Jim Martin, ["How to Offer Paid Leave without Imposing a New Tax,"](#) *CNN*, April 9, 2018; Kristin A. Shapiro and Andrew G. Biggs, ["A Simple Plan for Parental Leave: What If the Government Could Affordably Provide Paid Parental Leave to Every Worker in the US?"](#) *Wall Street Journal*, January 24, 2018.

⁷ Elizabeth Bruenig, ["Trump's Paid Family Leave Plan Would Punish Those Who Choose to Have Kids,"](#) *Washington Post*, February 7, 2018; Bryce Covert, ["Why Don't We Just Do Paid Family Leave the Right Way?"](#) *New York Times*, February 16, 2018; Emily Peck, ["Ivanka Trump and Marco Rubio's Paid Leave Plan Is a Disaster for Women."](#) *HuffPost*, February 12, 2018; George F. Will, ["Paid Maternity Leave: Your Baby Will Get the Bill,"](#) *Washington Post*, March 30, 2018.

⁸ We assume, for example, that employers and states that now provide paid parental leave will continue to do so, and that families will not alter their childbearing. We also assume that there is no adverse selection into the program.

⁹ Shapiro's proposal suggests that program participants could take fewer than 12 weeks of leave, but for simplicity we assume that each leave lasts 12 weeks.

¹⁰ The Family and Medical Leave Act guarantees 12 weeks of unpaid leave to care for a newborn or newly adopted child, to care for a family member with health problems, or to deal with one's own health problems. To be covered by the FMLA, however, employees must work for an employer with at least 50 employees, must have worked for

their employer for the past 12 months, and must have worked at least 1,250 hours during the past 12 months. Klerman, Daley, and Pozniak (2012) estimate that about 4 in 10 US workers were not covered by the FMLA in 2012.

¹¹ Only about 4 percent of women have more than four children (Hamilton and Cosgrove 2010). See table 3 at “Cohort Fertility Tables,” Centers for Disease Control and Prevention, last reviewed November 6, 2015, https://www.cdc.gov/nchs/nvss/cohort_fertility_tables.htm.

¹² For beneficiaries who claim worker retirement benefits based on their own employment history, we assume that for every month that SSA raised the FRA for leave takers, monthly benefits would fall by 5/9 of 1 percent for beneficiaries who claim retirement benefits between ages 62 and 64, 5/12 of 1 percent for beneficiaries who claim between ages 64 and 1 month and 67, and 2/3 of 1 percent for beneficiaries who claim after turning 67. For those claiming benefits as spouses, we assume that for every month SSA raised the FRA for leave takers, monthly benefits would fall by 25/36 of 1 percent for beneficiaries who claim retirement benefits between ages 62 and 64, and 5/12 of 1 percent for beneficiaries who claim after turning 64. For those claiming benefits as widows or widowers, we assume that for every month SSA raised the FRA for leave takers, monthly benefits would fall by 0.339 percent.

¹³ See also the PFL Program Statistics table from “Quick Statistics,” State of California Employment Development Department, data last updated February 2018.

¹⁴ We compare leave payment over the lifetime of each cohort, not over the 75-year horizon SSA uses to assess Social Security’s funding status.

¹⁵ Authors’ estimates from unpublished data provided by Social Security’s Office of the Chief Actuary.

¹⁶ People with disabilities have higher-than-average mortality rates (Zayatz 2015).

¹⁷ Our estimated offsets are not particularly sensitive to our assumptions about how take-up varies across income groups.

¹⁸ To limit the impact of outliers on our results, the analysis caps the replacement rate at 90 percent, the maximum replacement percentage in the Social Security benefit formula. We use average earnings during the current calendar year if a participant did not have 12 weeks of earnings in the previous calendar year.

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