



How Much Would Senator Rubio's Proposed Paid Leave Program Help New Parents?

Richard W. Johnson and Melissa M. Favreault

August 2018

Unlike every other high-income nation, the United States does not guarantee paid leave to new mothers (Addati, Cassirer, and Gilchrist 2014). To expand paid leave options, Senator Marco Rubio (R-FL) introduced legislation this month that would allow new parents to use part of their future Social Security retirement benefits to finance time off from work to care for a newborn or newly adopted child. Rubio's bill, the Economic Security for New Parents Act (S. 3345), would offset parental leave payments by raising the Social Security retirement age for paid leave recipients, permanently reducing their future Social Security retirement benefits. Transfers from the US Treasury to the Social Security trust funds would cover any short-term annual deficits in the leave program's early years, before participants who receive leave payments begin collecting reduced retirement benefits.

This brief analyzes the potential impact of Rubio's paid parental leave proposal. 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 the cost of the program to the US Treasury. Rubio's proposal resembles a paid parental leave plan developed earlier this year by the Independent Women's forum (Shapiro 2018), which we examined in a previous report (Favreault and Johnson 2018), but the senator's plan has more details and some changes.

Our results show that Rubio's proposed program would provide meaningful financial help to new parents. Granting a paid leave benefit equal to 300 percent of a monthly Social Security disability benefit would typically replace slightly more than one-half of pretax earnings for parents who leave

work for three months and about four-fifths of pretax earnings for parents who leave work for two months. Our simulations show that the leave program would recoup costs by raising Social Security's full retirement age for participants by six months for each paid leave lasting two or more months, reducing average lifetime retirement benefits 3.2 percent per leave. Participants who take three two-month paid leaves would forfeit one-tenth of their lifetime Social Security retirement benefits. As concerns intensify about financial security at older ages, programs that divert resources from retirement merit special scrutiny.

The Rubio Parental Leave Plan

The Rubio proposal, released earlier this month, would provide most parents of newborns and newly adopted children with a paid leave option.¹ New parents would qualify for the leave benefit if they have at least four quarters of work in covered employment over the past year and eight quarters of total coverage before the birth or adoption of their child.² Parents who are not currently employed could also qualify for the program if they have at least 12 quarters of total coverage when they apply. Additionally, parents must not be employed while collecting a leave payment.

The proposal adapts the Social Security disability benefit formula to compute the leave payment. To calculate disability benefits, Social Security indexes workers' earnings to changes in the economy-wide average wage. Only earnings in covered employment below the taxable maximum (\$128,400 in 2018) are counted. The basic monthly benefit, known as the primary insurance amount, is based on the average of indexed monthly earnings from age 22 to disability onset, but workers may drop one low-earning year for every five years since age 22.³ The primary insurance amount formula is progressive; it replaces 90 percent of the first \$895 (in 2018) of average monthly indexed earnings, 32 percent of the next \$4,502 in average monthly earnings, and 15 percent of average monthly earnings that exceed \$5,397.⁴ As a result, the Social Security disability benefit replaces most of the earnings received by low-wage workers with continuous employment. The parental leave benefit would equal 150 percent of the primary insurance amount for participants who take one month of leave and 300 percent of the primary insurance amount for those who take two or more months of leave.

The proposed leave payment would receive more preferential tax treatment than Social Security disability or retirement benefits. Up to 85 percent of the leave benefit would be subject to federal personal income taxes if half of the benefit plus other income exceeds \$88,000 for a married couple (or \$68,000 for a single adult); up to 50 percent of the leave benefit would be taxable if half of the benefit plus other income exceeds \$64,000 for a married couple (or \$50,000 for a single adult). Participants with less income would not pay any federal income tax on their leave benefit. These tax thresholds are twice as high as those for Social Security disability and retirement benefits under current law.

To finance parental leave benefits, the Rubio proposal would raise the Social Security retirement ages faced by parents who participate in the program. The Social Security full retirement age is now 67 for people born after 1959. Workers may retire as early as 62, but their monthly benefits are permanently reduced for every month they take benefits early to offset the additional benefit checks

they collect. By raising the full retirement age for leave participants, the program would reduce their future monthly retirement benefits. Participants could offset the monthly benefit cut by working longer and waiting to collect Social Security, but they would still experience a cut in lifetime benefits because they would collect Social Security for fewer months. The leave program would raise the early entitlement age, now set at 62, by the same amount as the full retirement age, forcing some participants to receive their retirement benefits later.

The increase in program participants' full retirement age would be just large enough to cover the expected cost of their leave payments, as determined by Social Security's Office of the Chief Actuary. Consistent with the actuarial reductions currently built into Social Security, we assume that each monthly increase in the full retirement age would reduce monthly benefits 0.417 percent for those who begin collecting retirement benefits before age 64, 0.556 percent for those who begin collecting between ages 64 and 66, and 0.667 percent for those who begin collecting at age 67 or later.⁵

Lower-earning participants would receive smaller leave benefits than higher earners, but leave benefits would replace a larger share of earnings for lower earners than higher earners because of the progressivity of the disability benefit formula and income tax. Table 1 reports earnings, leave benefits, and replacement rates for hypothetical leave program participants who give birth in 2020 at age 29, the median age for new mothers in 2015 (Martin et al. 2017). These illustrative calculations assume that leave program participants worked continuously since age 22 with constant indexed annual earnings and take at least two months of paid leave. For example, a single mother who earns \$25,000 a year, or \$2,083 a month, would receive a leave benefit of \$3,557, which would replace 85 percent of her pretax earnings if she took a two-month leave and 57 percent of her pretax earnings if she took a three-month leave.⁶ The replacement rate falls for longer leaves because the benefit does not increase if parents leave the labor force for more than two months. The benefit would replace 115 percent of a participant's after-tax earnings if she took a two-month leave and 77 percent of her after-tax earnings if she took a three-month leave, because her leave benefit would be tax free but she would pay income and payroll taxes on her earnings.⁷

TABLE 1

Earnings, Benefits, Replacement Rates, and Required Repayments for Hypothetical Leave Program Participants

Parents who take at least two months of leave

	Low- earning single parent	Low- earning married couple	Moderate- earning single parent	Moderate- earning married couple	High- earning single parent	High- earning married couple
Annual earnings (\$)						
Own	25,000	25,000	40,000	40,000	80,000	80,000
Spouse	0	25,000	0	40,000	0	80,000
Leave benefit (\$)						
Before tax	3,557	3,557	4,757	4,757	7,310	7,310
After tax	3,557	3,557	4,757	4,757	5,943	6,385
Pretax replacement rate (%)						
Two-month leave	85	85	71	71	55	55
Three-month leave	57	57	48	48	37	37
After-tax replacement rate (%)						
Two-month leave	115	107	111	83	66	63
Three-month leave	77	71	74	56	44	42
Total required repayment (\$)	13,130	13,130	17,550	17,550	26,980	26,980

Source: Authors' calculations.

Notes: Analysis assumes that these hypothetical parents give birth or adopt a child in 2020 at age 29, have worked continuously since age 22 with constant indexed earnings, and take at least two months of paid leave. The after-tax replacement rate compares the leave benefit, minus any federal income tax liability, to earnings that would have been earned during the leave period if the parent had remained at work, minus federal income tax and employee Social Security and Medicare payroll liability. The analysis computes the income tax liability associated with working as the increase in a household's total federal income tax liability when a member works 12 months rather than taking time off during the leave period. The required repayment is calculated using the interest rates adopted by the Social Security trustees and assumes the leave participant begins collecting Social Security retirement benefits at age 67. Participants' earnings and benefits are reported in current-year dollars; repayments are reported in inflation-adjusted 2018 dollars.

The leave program's replacement rates are lower for participants who earn more. For a moderate-earning married couple with each spouse earning \$40,000 a year, the leave benefit would replace 83 percent of after-tax earnings for a two-month leave and 56 percent of after-tax earnings for a three-month leave. For a high-earning married couple in which each spouse earns \$80,000 a year, the after-tax replacement rates would be only 63 percent for a two-month leave and 42 percent for a three-month leave.

Participants would have to start paying back their leave benefits with interest when they begin collecting Social Security retirement benefits. For a 29-year-old leave recipient who retires at age 67, the Social Security "loan balance" would grow for 38 years. Using the Social Security trustees' interest rate assumptions, we estimate that our hypothetical leave program participants would eventually pay back nearly four times as much as they received in leave benefits. Lifetime repayments would total \$13,130 (in 2018 inflation-adjusted dollars) for our hypothetical low-earning participant, \$17,550 for

our hypothetical moderate-earning participant, and \$26,980 for our hypothetical high-earning participant. Participants' actual experience with the proposed leave program will deviate from these hypothetical profiles. Variation in earnings histories, age at which participants take paid leave and claim Social Security retirement benefits, preretirement disability, and old-age mortality will affect leave payments and retirement benefit offsets.

These calculations understate repayments for most participants, who pay back their benefits by accepting reduced Social Security retirement benefits. To ensure that the savings from reduced retirement benefit payouts cover program costs, retirement benefit reductions for participants who eventually collect Social Security retirement benefits must be large enough to cover their own leave benefits and part of the leave benefits received by participants whose Social Security retirement benefits are not cut because they become disabled and collect Social Security disability benefits, they die before collecting retirement benefits, or they never work enough to qualify for Social Security retirement benefits. As many as one-quarter of participants could fall into these categories (Favreault and Johnson 2018).

Because the leave program would pay parental leave benefits decades before it recoups any costs through lower retirement benefits, it would run an annual deficit for many years (Favreault and Johnson 2018). To protect the Social Security trust funds, the Rubio proposal would transfer funds from the US Treasury to make up any difference between program outlays and Social Security savings realized through lower retirement benefits. The Social Security trust funds would refund to the Treasury future savings generated from reduced Social Security retirement benefits. The proposed plan would begin in 2020 and end on December 31, 2023, but presumably it could be extended if it were successful.

Rubio's proposal shares many elements with a plan released earlier this year by the Independent Women's Forum (Shapiro 2018), especially the requirement that parents who receive paid leave through the program offset the cost of their leave by accepting reduced Social Security retirement benefits after age 62. The Rubio proposal, however, provides more details about how the program would work. Rubio's bill would require paid leave recipients to temporarily stop working, raise Social Security's early entitlement and the full retirement ages for participants, and transfer funds from the US Treasury to Social Security to cover any deficits in the leave program in its early years. Rubio's plan would also shield much of the parental leave benefit from federal income taxes. The Independent Women's Forum plan did not specify any of these elements.

Modeling the Rubio Proposal

Using DYNASIM, we simulate the likely impact of Rubio's proposed paid leave program, focusing on program participation, leave payments, retirement benefit offsets, and government costs. We assume the program would begin in 2020 and that the existence of the program would not generally change individual or employer behavior or other policy choices.⁸ However, our simulations require leave program participants who would have claimed Social Security retirement benefits at age 62 to claim instead at the higher early entitlement age set by the leave program. For simplicity, our analysis

assumes that all leave participants take at least two months of paid leave. We 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 to pay 77 percent of scheduled retirement benefits after 2034 (Board of Trustees 2018).

DYNASIM starts with a representative sample of individuals and families and ages them year by year, simulating key demographic, economic, and health events. 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 estimate 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).

Assumed Participation Rates

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, participation will fall far short of 100 percent (Currie 2006; Ebenstein and Stange 2010), especially because the program would replace only a fraction of earnings for most participants, 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, Mederer, and Djurdjevic 2016).⁹

We base our participation assumptions on experience with California's state leave program, which has a large and diverse population and a more mature program than New Jersey, New York, or Rhode Island, the only other states with active paid leave programs (Appelbaum and Milkman 2011).¹⁰ Based on California's experience, we estimate a 33 percent overall take-up rate for new eligible parents in our intermediate scenario (table 2). 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 eligible parents participate, and a high take-up scenario, which assumes that 50 percent of new eligible parents participate.

TABLE 2

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			
with access to employer-sponsored paid leave or state paid leave program	30	20	45
without access to employer-sponsored paid leave or state paid leave program	50	40	75
Coresident fathers			
with access to employer-sponsored paid leave or state paid leave program	15	10	25
without access to employer-sponsored paid leave or state paid leave program	30	20	45

Source: Authors' estimates.

Notes: Reported rates are for the third and fourth years of the program. 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 than shown 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 than shown 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 will likely be limited in the first few years (Appelbaum and Milkman 2011; Dunford 2017; Silver et al. 2016).

Leave Benefits

Pretax benefits for new parents who participate in the leave program and take at least two months off from work would average \$4,450 (table 3). Because a few participants would have very high earnings, median benefits would be somewhat lower (\$4,110). One-half of participants would replace at least 80 percent of their pretax earnings—the median replacement rate—if they spend only two months out of

work but 53 percent if they spend three months out of work. Because some leave benefits would be subject to federal income taxes, after-tax leave payments would be somewhat lower than pretax amounts.

TABLE 3
Simulated Parental Leave Benefits among Participants Who Take
at Least a Two-Month Leave, 2020–23
By sex and household-size-adjusted income quintile

	Before Tax				After Tax	
	Average benefit (\$)	Median benefit (\$)	Median replacement rate for two-month leave (%)	Median replacement rate for three-month leave (%)	Average benefit (\$)	Median benefit (\$)
All	4,450	4,110	80	53	4,250	3,980
<i>By quintile</i>						
Bottom	3,440	3,200	90	63	3,430	3,200
Second	4,350	4,120	83	55	4,320	4,050
Middle	4,820	4,640	75	50	4,640	4,530
Fourth	5,430	5,310	66	44	4,970	4,810
Top	5,940	6,050	55	36	5,130	5,280
Women	4,200	3,830	85	56	4,020	3,720
<i>By quintile</i>						
Bottom	3,300	3,130	90	63	3,290	3,130
Second	4,170	3,940	86	58	4,140	3,920
Middle	4,520	4,280	84	56	4,360	4,150
Fourth	5,230	5,090	73	49	4,800	4,690
Top	5,630	5,740	59	39	4,880	4,890
Men	5,210	5,040	69	46	4,940	4,810
<i>By quintile</i>						
Bottom	4,050	3,570	90	62	4,050	3,570
Second	4,830	4,690	75	50	4,800	4,660
Middle	5,540	5,420	63	42	5,330	5,320
Fourth	5,880	5,690	56	37	5,360	5,240
Top	6,620	6,850	42	28	5,670	5,870

Source: Authors' estimates from DYNASIM.

Notes: Estimates are from the intermediate take-up scenario, assume that all participants take at least two months of paid leave, and are rounded to the nearest \$10. Income quintiles are defined over the adult population, not the leave-taking population. The analysis considers only federal income taxes and computes tax liabilities by applying a household's average tax rate to the taxable portion of the leave benefit. Benefits are reported in inflation-adjusted 2018 dollars.

Leave payments would increase with income and would be higher for men than women, but the progressive disability benefit formula used to compute payments would narrow income differences and raise replacement rates for those with limited incomes. Among parents taking a two-month paid leave, the median pretax replacement rate would reach 90 percent for those in the bottom fifth of the income distribution compared with 55 percent for those in the top fifth of the income distribution.

Program Participation and Spending

Our intermediate take-up scenario projections indicate that 2.0 million new parents would participate in the program in 2023 (table 4). (We estimate, using intermediate take-up projections, that only 1.4 million would participate in 2020, the program’s first year, because it would take time for people to learn about the program.) Projected 2023 participation ranges from 1.4 million new parents under the low take-up scenario to 2.9 million new parents under the high take-up scenario. In contrast, we estimate that 5.6 million new parents would qualify for the program in 2023.

TABLE 4

Simulated Number of Leave Program Participants and Annual Program Spending, 2020–23

By take-up scenario and year

	Intermediate	Low	High	Universal
Number of participants (millions)				
2020	1.4	1.0	2.1	5.3
2021	1.7	1.2	2.6	5.5
2022	1.9	1.5	2.8	5.6
2023	2.0	1.4	2.9	5.6
Annual cost (\$ billions)				
2020	6.5	4.8	9.6	25.1
2021	8.0	5.7	12.0	27.1
2022	9.6	7.3	14.1	28.4
2023	10.2	7.3	15.0	30.0

Source: Authors’ estimates from DYNASIM.

Note: Spending is reported in current-year dollars.

Under the intermediate take-up scenario, the program would pay \$10.2 billion in leave benefits in 2023. Projected spending that year ranges from \$7.3 billion under the low take-up scenario to \$15.0 billion under the high take-up scenario. If all eligible parents participated, the program would pay \$30.0 billion in leave benefits in 2023. The US Treasury would reimburse Social Security for nearly all benefit payments in 2023 because very few participants would be collecting Social Security retirement benefits by then. The Social Security trust fund would begin reimbursing the federal government once paid leave recipients start retiring and collecting reduced retirement benefits, but the repayment period would last many decades. If Congress extended the parental leave program indefinitely, the Social Security trust funds would never fully repay the US Treasury.

Impact on Future Retirement Benefits

Our simulations show that to cover the cost of parental leave payments, the proposed program would have to raise Social Security’s full retirement and early entitlement ages by six months for each paid leave lasting two or more months. This increase in the retirement age would, on average, cut participants’ annual Social Security retirement benefits by \$1,120 (measured in inflation-adjusted 2018

dollars). The median annual retirement benefit cut would be somewhat smaller—\$910—because some high-earning leave participants would receive unusually large Social Security retirement benefits. The average annual cut would be about 10 percent higher for men than women because men’s higher average earnings would raise their average Social Security benefits.

TABLE 5
Simulated Reduction in Future Social Security Retirement Benefits per Two-Month Leave
Leave beneficiaries in 2020–23

	Annual Reduction		Expected Number of Years Collecting Reduced Benefits		Lifetime Reduction		
	Average amount (\$)	Median amount (\$)	Average	Median	Average benefit (\$)	Median benefit (\$)	Median percentage reduction
All	1,120	910	21	24	18,830	16,190	3.2
Women	1,090	880	21	24	17,970	15,240	3.1
Men	1,200	990	21	23	20,820	18,610	3.3

Source: Authors’ calculations.

Notes: Estimates are from the intermediate take-up scenario. Social Security benefit reductions are rounded to the nearest \$10. Annual and lifetime reductions are reported in inflation-adjusted 2018 dollars.

For participants who begin collecting immediately when they reach the early entitlement age, Social Security retirement benefit cuts would last only one year. Because their early entitlement age would increase six months by participating in the leave program, they would lose half their annual Social Security retirement benefits at age 62, but in subsequent years they would collect the same retirement benefit as they would have had they not received a paid parental leave benefit. However, having to delay Social Security retirement benefit take-up can create financial hardships for some older adults. Many workers 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 (Johnson, forthcoming).

For most participants who collect after the early entitlement age, the annual retirement benefit cuts would last throughout retirement, for an average of 21 years. For each paid leave lasting at least two months, program participants would forfeit \$18,830, on average, in lifetime Social Security retirement benefits. The median reduction would be \$16,190. Lifetime reductions would be somewhat higher for men than women.

These Social Security retirement benefit cuts would erode later-life financial security for program participants. Our simulations indicate that each paid leave would reduce Social Security retirement benefits 3.2 percent. If the program continues, participants who took three paid leaves would lose about one-tenth of their lifetime Social Security retirement benefits. Our estimates would be higher if Congress were to reduce scheduled Social Security benefits to close the program’s long-term financing gap.

Most program participants would forfeit significant retirement income because interest would accumulate on their implicit loan from Social Security 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 begin collecting Social Security in their early and mid-sixties, interest on the leave loan would generally accrue for 25 or more years before leave recipients start paying off the loan, and the repayment period would often last 20 or more years.

We also project that about one-quarter of leave program participants would not pay back any of their leave benefit. Some participants would become disabled and collect Social Security disability benefits, insulating them from any increase in Social Security's full retirement age. Other participants would die before collecting any retirement benefits or never work long enough to qualify for Social Security retirement benefits. Our projections assume that the cost of all participants' leave payments are covered by those who eventually collect Social Security retirement benefits and do not receive disability benefits, raising the retirement benefit cuts they would face.

Conclusions

A paid parental leave program like Rubio's 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 simulations show that granting a paid leave benefit to new parents equal to 300 percent of a monthly Social Security disability benefit would typically replace slightly more than one-half of earnings for parents who leave work for three months and about four-fifths of earnings for parents who leave work for two months. Participants would repay Social Security for the cost of parental leave by forfeiting part of their future retirement benefits. To fully cover costs, the program would have to raise Social Security's full retirement age by about six months for each paid leave lasting two or more months, reducing average lifetime retirement benefits 3.2 percent per leave. Participants who take three paid leaves would forfeit one-tenth of their lifetime Social Security retirement benefits.

Despite the built-in reduction in future Social Security retirement benefits, the program would raise federal government outlays. Under our intermediate take-up scenario, we project that annual program spending would reach \$10.2 billion in 2023, nearly all of which would be covered by the US Treasury. The Social Security trust funds would begin reimbursing the federal government once paid leave recipients start collecting reduced retirement benefits, but the repayment plan would take decades even if the program lasts only four years. If Congress were to extend the parental leave program indefinitely, the trust funds would never fully reimburse the US Treasury.

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 options, and some states might modify or even phase out their family leave programs. 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 impose a deeper percentage cut in participants' retirement benefits to cover costs.

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, easing pressure on government budgets. Nonetheless, how much the leave program would raise lifetime earnings is unclear.

A strong case can be made for guaranteeing paid parental leave, but the Social Security system may not be the best way to finance those benefits. 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), and the United States stands alone among wealthy countries in its meager support for new parents (Addati, Cassirer, and Gilchrist 2014). Society depends on children's future productivity, yet many of the costs of raising children remain private. 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?

As concern grows about the financial security of future retirees (Johnson et al. 2018), justifying programs that divert resources from retirement is difficult. Funding parental leave with Social Security could increase pressure to use Social Security for other needs, such as student loan forgiveness and midcareer education (Whitman, Freedman, and Emerman 2018), further eroding future retirement security.¹¹

Using Social Security to finance parental leave benefits also 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 their needs at younger ages would begin to transform the program from a social insurance program to a forced saving program.

Notes

- ¹ The description of Rubio's plan is based on discussions with his staff and the draft bill that appears on his website. See Marco Rubio, US Senator for Florida, "[Rubio Unveils Bill Giving Parents an Option for Paid Family Leave](#)," news release, August 2, 2018.
- ² In 2018, workers earn one quarter of coverage if they earn at least \$1,320. Some types of employment, such as some state and local government jobs, are not covered by Social Security.
- ³ No more than five years may be dropped from the calculation.
- ⁴ The annual values of these "bend points" are \$10,740 and \$64,769 in 2018.
- ⁵ These reduction rates are for retirees who collect worker benefits. Reduction rates are slightly different for retirees who collect spousal or survivor benefits.
- ⁶ In 2015, median earnings for women were \$22,891 at ages 25 to 29 and \$28,291 at ages 30 to 34. See table 4.B6 in Social Security Administration (2018).
- ⁷ The analysis considers only the employee portion of the payroll tax and ignores state income taxes.
- 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 have more children or change the timing of their childbearing after the program is introduced.
- ⁹ The Family and Medical Leave Act (FMLA) requires employers to provide 12 weeks of unpaid leave to covered employees 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; it also requires that employers allow leave takers to return to their old job. 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.
- ¹⁰ See also the PFL Program Statistics table from "[Quick Statistics](#)," State of California Employment Development Department, data last updated February 2018.
- ¹¹ [Student Security Act of 2017](#), H.R. 4584, 115th Cong. (2017).

References

- Addati, Laura, Naomi Cassirer, and Katherine Gilchrist. 2014. *Maternity and Paternity at Work: Law and Practice across the World*. Washington, DC: International Labor Organization.
- Appelbaum, Eileen, and Ruth Milkman. 2011. "[Leaves That Pay: Employer and Worker Experiences with Paid Family Leave in California](#)." Washington, DC: Center for Economic and Policy Research.
- Baum, Charles L., II, and Christopher J. Ruhm. 2016. "The Effects of Paid Family Leave in California on Labor Market Outcomes." *Journal of Policy Analysis and Management* 35 (2): 333–56.
- Board of Trustees (Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds). 2018. *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Washington, DC: Board of Trustees.
- Bureau of Labor Statistics. 2017. *National Compensation Survey: Employee Benefits in the United States, March 2017*. Washington DC: US Department of Labor.
- Byker, Tanya S. 2016. "Paid Parental Leave Laws in the United States: Does Short-Duration Leave Affect Women's Labor-Force Attachment?" *American Economic Review* 106 (5): 242–46.
- Currie, Janet. 2006. "The Take Up of Social Benefits." In *Public Policy and the Income Distribution*, edited by Alan J. Auerbach, David Card, and John M. Quigley, 80–147. New York: Russell Sage Foundation.

- Dunford, Amy. 2017. “Boosting Families, Boosting the Economy: How to Improve New Jersey’s Paid Family Leave Program.” Trenton, NJ: New Jersey Policy Perspective.
- Ebenstein, Avraham, and Kevin Stange. 2010. “Does Inconvenience Explain Low Take-Up? Evidence from Unemployment Insurance.” *Journal of Policy Analysis and Management* 29 (1): 111–36.
- Employment Development Department, State of California. n.d. “Paid Family Leave (PFL) Program Statistics.” Sacramento, CA: Employment Development Department.
- Favreault, Melissa, Barbara Butrica, and Stipica Mudrazija. Forthcoming. *Understanding the Lifetime Effects of Providing Informal Care: Final Report*. Washington, DC: Urban Institute.
- Favreault, Melissa M., and Richard W. Johnson. 2018. “Paying for Parental Leave with Future Social Security Benefits.” Washington, DC: Urban Institute.
- Favreault, Melissa M., Karen E. Smith, and Richard W. Johnson. 2015. *The Dynamic Simulation of Income Model (DYNASIM)*. Washington, DC: Urban Institute.
- Johnson, Richard W. Forthcoming. *Is It Time to Raise the Social Security Retirement Age?* Washington, DC: Urban Institute.
- Johnson, Richard W., Karen E. Smith, Damir Cosic, and Claire Xiaozhi Wang. 2018. *The Retirement Outlook for Millennials: What Is the Early Prognosis?* Washington, DC: Urban Institute.
- Klerman, Jacob Alex, Kelly Daley, and Alyssa Pozniak. 2012. “Family and Medical Leave in 2012: Technical Report.” Cambridge, MA: Abt Associates Inc.
- Lino, Mark, Kevin Kuczynski, Nestor Rodriguez, and TusaRebecca Schap. 2017. *Expenditures on Children by Families, 2015*. Miscellaneous publication 1528-2015. Washington, DC: US Department of Agriculture, Center for Nutrition Policy and Promotion.
- Martin, Joyce A., Brady E. Hamilton, Michelle J. K. Osterman, Anne K. Driscoll, and T. J. Mathews. 2017. “Births: Final Data for 2015.” *National Vital Statistics Report* 26(1). Hyattsville, MD: National Center for Health Statistics.
- New Jersey Department of Labor and Workforce Development, Office of Research and Information. 2017. *Family Leave Insurance Workload in 2016: Summary Report*. Trenton, NJ: New Jersey Department of Labor and Workforce Development.
- Pihl, Ariel, and Gaetano Basso. n.d. “Paid Family Leave, Job Protection and Low Take-up among Low-Wage Workers.” Policy brief volume 3, number 12. Davis, CA: University of California, Davis.
- Shapiro, Kristin A. 2018. “A Budget-Neutral Approach to Parental Leave.” Washington, DC: Independent Women’s Forum.
- Silver, Barbara E., Helen Mederer, and Emilija Djurdjevic. 2016. “Launching the Rhode Island Temporary Caregiver Insurance Program (TCI): Employee Experiences One Year Later.” Kingston, RI: University of Rhode Island.
- Social Security Administration. 2018. *Annual Statistical Supplement to the Social Security Bulletin, 2017*. Washington, DC: Social Security Administration.
- Urban Institute. 2015. “DYNASIM: Projecting Older Americans’ Future Well-Being.” Washington, DC: Urban Institute.
- Whitman, Debra, Marc Freedman, and Jim Emerman. 2018. *Social Security Lifelong Learning Benefits: Executive Summary*. Washington, DC: AARP.

About the Authors



Melissa Favreault is a senior fellow in the Income and Benefits Policy Center at the Urban Institute, where her work focuses on the economic well-being and health status of older Americans and individuals with disabilities. She studies social insurance and social assistance programs and has written extensively about Medicaid, Medicare,

Social Security, and Supplemental Security Income. She evaluates how well these programs serve Americans today and how various policy changes and ongoing economic and demographic trends could alter outcomes for future generations. Much of her research relies on dynamic microsimulation, distributional models that she develops to highlight how educational and economic advantages shape financial outcomes, disability trajectories, health care needs, and longevity. She has a special interest in the economic risks that people face over their lives. Favreault earned her BA in political science and Russian from Amherst College, and her MA and PhD in sociology from Cornell University.



Richard W. Johnson is a senior fellow in the Income and Benefits Policy Center, where he directs the Program on Retirement Policy. His current research focuses on older Americans' employment and retirement decisions, long-term services and supports for older adults with disabilities, and state and local pensions. Recent studies have examined job loss at older ages, occupational change after age 50, employment prospects for 50+ African Americans and Hispanics, and the impact of the 2007–09 recession and its aftermath on older workers and future retirement incomes. He has also written extensively about retirement preparedness, including the financial and health risks people face as they approach retirement, economic hardship in the years before Social Security's early eligibility age, and the adequacy of the disability safety net. Johnson earned his AB from Princeton University and his PhD from the University of Pennsylvania, both in economics.

Acknowledgments

This brief was funded by the Alfred P. Sloan Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

We thank Barbara Butrica for valuable comments on an earlier draft and Rachel Kenney and Michael Marazzi for editorial assistance.

Results reported in this brief are based on the Urban Institute's Dynamic Simulation of Income Model 4 (DYNASIM4). Karen Smith and Melissa Favreault direct DYNASIM4 development. Douglas Murray was DYNASIM4's lead programmer from 1998 through 2017, and Damir Cosic has been lead programmer since 2018. Current and recent funders of DYNASIM4 include the US Department of Labor, AARP, Alfred P. Sloan Foundation, Andrew W. Mellon Foundation, Ford Foundation, Kaiser Family Foundation, National Institute on Aging, Office of the Assistant Secretary for Planning and Evaluation at the US Department of Health and Human Services, Rockefeller Foundation, SCAN Foundation, and Social Security Administration.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.



2100 M Street NW
Washington, DC 20037
www.urban.org

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

Copyright © August 2018. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.