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The Economic Effects of Investing in Quality Care Jobs and Paid Family and Medical Leave*

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Introduction and Executive Summary of Findings

The recent introduction of the American Jobs Plan and American Families Plan by the Biden-Harris Administration is an important step towards recognizing the importance of the care infrastructure to the U.S. economy. This Research Brief examines the effects of critical public investments in childcare, home health care, and paid family and medical leave for the U.S. workforce, as proposed by the AJP and AFP. We find that investing in the childcare and home health care workforce, both by ensuring that the current workforce earns a minimum of $15/ hour and by expanding the workforce to meet current demand, has positive macroeconomic effects as the care workforce spends its own money on goods and services throughout the rest of the economy. We also find that paid family and medical leave — a crucial necessity for workers facing their own or their family's health issues — also positively boosts the economy, as workers spend the wage replacement income that they earn.

We find that universal paid family and medical leave, as proposed by the American Families Plan, would increase household income nationally by $28.5 billion, of which $19 billion would be wage replacement directly from the paid leave program, and $9.4 billion would be income earned by workers throughout the economy as people receiving wage replacement spend money on goods and services. **This means that for every dollar spent on wage replacement as part of the paid leave program, other workers would earn an additional $.50.** Women are 53 percent of the new leave-takers, while women earning $15 / hour and below are 27 percent of all new leave takers. Notably, the industries that would see the highest employment growth as a result of people earning paid leave

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spending money on goods and services include restaurants and hospitals/ health care facilities, both of which disproportionately employ women and people of color.

We also analyze the impacts of investing in high-quality jobs and job expansion in the childcare and home health care industries. We model the effects of a $42.5 annual investment in childcare and a $40 billion investment in home health care in several steps. First, we simulate raising the wages for the entire current workforce to a minimum of $15/ hour, and then assume some wage spillover across the wage distribution for those occupations. We then model an investment of the remaining funds into expanding those industries, also accounting for minimum wages of $15 / hour in both industries. Finally, we simulate the effects of the new care workforces spending their income on goods and services throughout the rest of the economy, finding the job creation and labor compensation as a result of their consumption. **We find that the proposed investments increase employment in the home health care sector by 741,457 and childcare sector by 640,410, while ensuring that the total workforces of 3,068,287 in home health care and 1,142,980 in childcare are paid a minimum of $15/ hour. We find that this investment creates 564,000 additional jobs throughout the economy, and results in an increase in labor income of $82 billion annually.**

It is critical to note that the analysis presented here does not include the many other positive economic benefits of investing in paid family and medical leave, childcare, and home health care. These include increased workforce stability; increased labor force participation, especially for women; increased health for workers and their families, and increased investment in children, who are the workforce of the future. Setting a floor for wages will have a major effect on income gaps for women, people of color, and especially women of color, who are disproportionately likely to work in the care sector and/ or to not have access to paid leave.

Finally, the social and cultural benefits of living in a society that respects the needs of families to have social support as they balance paid employment and caring for their families cannot be measured. As all families have experienced in the pandemic, the care infrastructure matters.

SECTION 1: Economic Analysis of Universal Paid Family and Medical Leave

The United States lacks a universal paid family and leave program, which means that tens of millions of American workers are not able to take care of their own serious health issues or the health or caregiving needs of their family members without suffering a loss of income. Widespread lack of paid leave disproportionately affects women, people of color, and lower-income workers, who are even less likely than workers overall to receive paid leave as a benefit from their employer. The recent American Family Plan from the Biden Administration proposes establishing a universal paid leave program; recent Congressional legislation sponsored by Rep. Rosa DeLauro and Senator Kirsten Gilibrand, and a recent draft legislative proposal by Rep. Richard Neal, the chairman of the U.S. House Ways & Means committee, have also outlined universal, comprehensive paid family and medical leave programs. While many studies have examined the actual take-up rates of state-level paid leave programs, the broader macroeconomic effects of paid leave have not been well-studied.

This Research Brief examines the economic effects of implementing universal paid family and medical leave at the national level using two steps: first, using the Department of Labor's Worker PLUS Microsimulation Model to estimate the take-up rates of a public universal paid leave program; and second, estimating how the income received by workers taking paid leave would affect their own consumption of goods and services in the economy, leading to further job creation and labor income for workers in various goods and services sectors. We examine paid leave at the state and national levels,

using data from 2018; importantly, this research does not model the effects of paid leave in a time of a public health crisis, but instead uses pre-pandemic data to estimate the importance of paid leave to a post-pandemic future.

Background on the Need for Paid Family and Medical Leave

"Paid leave" refers to paid time off, at total or partial wage replacement levels, which is available to workers for their own serious health conditions, the serious health conditions of family members who require care, or to care for a new child. Paid family and medical leave is distinct from paid sick leave, which typically has a very limited duration and is used for routine health needs. Only 21 percent of the civilian workforce has access to paid family leave, though this has risen from just eleven percent in the last decade (BLS Employee Benefits in the U.S. 2020). However, access differs widely for workers across the income distribution: by wage quartile, only five percent of the lowest-paid workers had access to paid family leave; while twenty percent did in the next quartile, twenty-four percent in the third quartile, and thirty-two percent in the highest quartile (BLS National Compensation Survey 2020).[1] Access to paid medical leave (which refers to paid time off for one's own health, for a longer duration than paid sick leave) is available to just two-in-five workers through employer-provided short-term disability insurance, and disparities by wage level are pervasive there as well (BLS Employee Benefits in the U.S. 2020). Access to paid leave also varies widely across states.[2]

Personal medical leave is the top reason for workers to take FMLA leave (51 percent), while about one-quarter of the FMLA leaves are to care for new children and nearly one-quarter is to care for a family member with a serious health issue or military deployment care (FMLA Survey 2018). Several states have established public paid leave programs, including California, Rhode Island, New Jersey, Washington, and Massachusetts;[3] and some public and private employers offer paid leave to their employees. Federally, only unpaid leave is available to the set of employees covered by the Family and Medical Leave Act.

Paid leave to care for one's own health or the health of family members has many benefits. First, of course, is the peace of mind and economic security that enables care for oneself or one's family without an interruption in income. Paid family leave has been linked to higher labor force participation for women--in countries with paid family leave, such as Canada and Sweden, labor force participation is consistently higher. Paid leave has been linked to higher worker retention rates and return to the same employer, especially for the low-wage workforce. This Brief presents quantitative estimates of the impact of paid leave on wage replacement, and on the broader economy as workers simulated to receive paid leave under the federal program spend their income on goods and services throughout the rest of the economy.

Paid family and medical leave has critical health benefits that are not quantified in the economic findings presented below. Paid family leave has significant benefits on newborns' health and the wellbeing of parents in the first weeks and months of a child's life. Paid leave is linked to compliance with well-baby visits and immunizations; reduced hospital time for children; reduced nursing home use, with reduced Medicaid costs; and reduced use of public assistance.[4] Paid family leave increases parental leave early in children's lives: one study examined the effect of California's paid family leave program (CA-PL) on parental leave and on the balance between mothers and fathers in opposite-sex dual earner households (Bartel, Rossin-Slater, Ruhm, Stearns, and Waldfogal 2018). They found that California's program increased paternal leave by 46 percent for newborns. Maternal leave increased over thirteen percent, but since many more were already taking leave, the absolute rise is higher. They found that the program increased the likelihood of both parents taking leave, and in about half the cases, both took leave at the same time, while in the other half, leaves were staggered.

Findings

We find that universal paid family and medical leave would increase labor income in the United States by $28 billion.5 billion, of which $19.1 billion would be wage replacement directly from the paid leave program, and $9.4 billion would be labor income earned by workers throughout the economy as people receiving wage replacement spend money on goods and services. **This means that for every dollar spent on wage replacement as part of the paid leave program, other workers would earn an additional $.50.** Women are 53 percent of the new leave-takers, while women earning $15 / hour and below are 27 percent of all new leave takers. Notably, the industries that would see the highest employment growth as a result of people earning paid leave spending money on goods and services include restaurants and hospitals/ health care facilities, both of which also disproportionately employ women and people of color.

We report the findings about new leave-taking for all states and at the national level in Table 1. We are only able to report findings for the induced effects on labor income for certain states given the avail-ability of data. Meaningful impacts occur at the state level as well. For example, workers in Arizona would receive $716 million in income, which would result in an additional $221 million earned by other workers, notably in industries like hospitals and restaurants. In Michigan, the workforce would earn $1 billion, resulting in over $300 million earned by other workers.

There are two important qualifications to make with this analysis. The first is that it assumes that private employers continue to offer paid leave. The Worker PLUS model includes data from the FMLA 2018 survey which estimates the wage replacement rate for workers whose employers do offer paid leave, and simulates the choice for those employees between their employer program and the public program based on the replacement rate. The second qualification is that the numbers estimated here result from federal paid leave parameters (including wage replacement rates and length of time allowed), even though federal legislation would presumably leave adequate state programs in place.

▶ TABLE 1: THE ECONOMIC EFFECTS OF PAID LEAVE

Methodology

The approach taken in this analysis has two steps: first, we use the Worker PLUS Microsimulation Model, available publicly from the U.S. Department of Labor, to estimate the increased annual income available to the workforce if a universal paid leave program were available. We then utilize the paid leave income estimate in an input-output model, using data from the Bureau of Economic Analysis provided by the vendor IMPLAN, to estimate the increase in goods and services consumption by the individuals receiving paid leave income from the public program, and finally estimate the job creation effects of the increased consumption, including how many jobs are created and the primary sectors that see employment growth. We detail both approaches below.

The Worker PLUS microsimulation tool is a new tool that has been made publicly available by the U.S. Department of Labor. It is based on earlier work by economists Randy Abdela, Heidi Hartmann, and Jeff Hayes (see Hayes and Hartmann 2021 for more detail). In the words of the developers, "the Worker PLUS simulation model uses updated public microdata and predictive modelling to allow users to:

- Simulate different scenarios of a paid leave program
- Estimate the program benefit costs
- Estimate payroll tax revenue needed to fund the program benefit costs

- Perform population analyses for program participants and eligible workers by focusing on their leave-taking behavior
- Compare simulation results across different sets of parameter inputs

The Worker PLUS model also allows analysis of the effects of a paid leave program on a specific population (such as low-wage workers, or women of childbearing age) and the distribution of program benefits by demographic characteristics."
The program models six distinct types of paid leave available: leave for one's own medical needs; leave to bond with a new child; leave to care for an ill spouse; leave to care for ill children; leave to care for ill parents; and maternity leave (for women giving birth). The model allows workers to choose paid leave directly, and also models the indirect effect in which workers are more willing to take leave or use existing funding resources for longer leaves because of the added participation in the public program. The reporting presented here includes both effects, but only the use of public program wage replacement.

For the current analysis, we use the parameters from the "Building an Economy for Families Act," as proposed by Rep. Richard Neal in April, 2021. Specifically, we include twelve weeks of paid leave for the six types of leave; cap weekly benefits at $1,000 per week; and utilize the wage replacement ratios in the brackets as proposed in the Neal legislation (reproduced below). We use take-up rates (i.e., of those who are eligible due to medical necessity and previous earnings of at least $300 in the previous year, who are simulated to actually take the leave) from California's actual administrative data from its paid leave program.

The wage replacement structure given by the *Building an Economy for Families Act* is progressive, meaning that workers earning lower wages earn a disproportionately higher percentage of replaced wages. This structure would replace at least two-thirds of average earnings for the majority of workers.[5]

TABLE 2: Wage Replacement Parameters, BUILDING AN ECONOMY FOR FAMILIES ACT §2203, "Benefit Amount" (2021)

Average Monthly Earnings Range	Wage Replacement Percentage
$0-$1,257	85 percent
$1,257-$2,854	75 percent
$2,854-$6,000	55 percent
$6,000-$8,333	25 percent
$8,333- $20,833	5 percent

Because the Worker PLUS model includes estimates of who will continue to take available employer paid leave, the model produces an estimate of all paid leave-takers, from both employer and the simulated public program, as well as allowing an estimate of the annual income replacement to those who take only the public program paid leave. We report only the estimated income that workers would gain from the simulated public paid leave program, as determined by the Worker PLUS model. We call these individuals "new leave takers." When specifying the proportion of income earned by "low-wage" workers, we use the model-defined definition of workers earning strictly below $15/hour.

The second step in the analysis is to take the personal income that is available as wage replacement to workers from the simulated public paid leave program and model the effects of this increased personal income broadly within a state. IMPLAN allows the user to model the simulated effects that an increase in personal income has on household consumption, i.e., what proportion of new income families at different income brackets actually spend, and what they spend it on, by sector. This new sector-specific economic activity in turn allows for an estimate of what employment creation will be induced, and what the total new personal income will be for the newly-employed workers. We call these individuals "new employees."

The sum of personal income for "new leave takers" and "new employees" gives us our main result: the increase in personal income available to American households from a universal paid leave program. This analysis shows that paid leave is not only essential for workers' job stability, health, and labor force participation, but also will support increased economic activity and employment throughout the economy, primarily benefiting workers in low-wage sectors.

SECTION 2: Economic Analysis of Investing in High-Quality Jobs and Job Creation in Home Health Care

Home health care — care for the elderly and people with chronic health conditions — continues to grow in importance, and the Bureau of Labor Statistics predicted even before the pandemic that home health care would see the fastest employment growth in the coming decade. Yet the home health care workforce is deeply underpaid, resulting in chronic turnover. The home health care industry is 85 percent female, and 45 percent people of color (of whom 27 percent are Black) at the national level. For more background on the home health care workforce, see PHI's recent report, "The Power and Potential of America's Direct Care Workforce," and NDWA and Caring Across Generation's report "Care Can't Wait."

Approach

Modeling the impact of the $400 billion proposal contained in the American Jobs Act for the HCBS workforce means estimating the cost of raising wages for the current workforce as well as simulating the effects of an increase in output in the HCBS industry, while ensuring that new employees receive the same higher wages. The assumptions we make about how much the current workforce's wages will rise determines the funds left for new job creation and services. This Memo presents the methodology and results for an economic impact of the HCBS investment proposal, assuming a cap of $400 billion, or $40 billion annually.[6]

We take the current distribution of wages given in the BLS OEWS for Home Health Care & Personal Aides from May 2020 (OCC code 31-1120) in the Home Health Care Services Sub-Sector (NAICS 621600) and Individual and Family Services (NAICS 624100) (2,326,830 workers in total); We averaged the wages given for the same occupation in the two sectors evenly, given that they have a roughly even number of workers, for wages at the 10%, 25%, 50%, 75%, and 90% percentiles. We simulate an increase in wages by taking wages at the 10th percentile and making them $15 / hour across the board. We then raised wages across the rest of the distribution, assuming spillovers that increase wages at a progressively lower rate.

The second step in the analysis involves translating this percentage increase into a dollar amount that represents new labor compensation for the current aggregate workforce.We are assuming that any increase to current workforce compensation comes out of the $40 billion annual investment separately from the new investment, which creates new jobs at the same higher levels of compensation. With $6,112,769,154 spent on higher wages for the current workforce, there is $33,887,230,845 available for new investment.

Results

▶ TABLE 3: HOME HEALTH CARE ANALYSIS

The final step in the analysis simulates the effect on the rest of the economy as current HCBS workers earning higher incomes, and new HCBS workers, spend their new income on goods and services throughout the economy. This induced effect is important in order to get a complete picture of the effect of the $40 billion annual investment on the economy.

- Net direct job creation in HCBS is 741,457, which results in a new total HCBS workforce of 3,068,287, all of whom are paid a minimum of $15/ hour.
- Indirect and induced job creation is an additional 394,611 (note that wages for these workers are not adjusted).

- Total new labor income is $40,671,467,001, showing a net gain as a result of the initial investment.

Table 3 also presents the results of the same analysis for selected states.

SECTION 3: Economic Analysis of Investing in High Quality Jobs and Job Creation in Childcare

As with home health care, the U.S. childcare system is a patchwork that has been deeply impacted by the pandemic. U.S. families struggle to afford high-quality childcare, and in many parts of the countries, care is virtually unaffordable for children under 5. The childcare workforce is majority female and disproportionately women of color in most states, and deeply and historically undervalued. The American Family plan proposes a historic investment in childcare to ensure availability to all families who need it, and to finally recognize the dignity of childcare work by placing a floor of $15 / hour for all childcare workers. For a complete analysis of the proposal, see Kashen (2021), "America Might Finally Get a Comprehensive Care System."

Approach

Modeling the impact of the $425 billion[7] proposal contained in the American Family Plan for the childcare workforce means estimating the cost of raising wages for the current workforce as well as simulating the effects of an increase in output in the childcare industry, while ensuring that new employees receive the same higher wages. The assumptions we make about how much the current workforce's wages will rise determines the funds left for new job creation and services. This Memo presents the methodology and results for an economic impact of the childcare investment proposal, assuming a cap of $425 billion, or $42.5 billion annually.[8]

The methodology followed is substantially the same as described in Section 2. We take the current distribution of wages given in the BLS OEWS for Child Day Care (NAICS code 624410); for the occupations Childcare Workers (OCC 39-9011) and Preschool Teachers, Except Special Education (OCC 25-2011) (note that we only include Preschool Teachers who are in the Child Day Care Industry, not in K-12 schools). We averaged the wages given for the two occupations in the sectors evenly, given that they have a roughly even number of workers, for wages at the 10%, 25%, 50%, 75%, and 90% percentiles. We then simulate an increase in wages by taking wages at the 10th percentile and making them $15 / hour across the board. We again assume some level of wage spillover that progressively decreases across the income distribution, and compute a total cost of increasing wages to a minimum of $15/ hour for the current workforce of $2.6 billion. We then model the effects of investing the remainder of the $42.5 billion annually in expansion of the child day care industry. The final step in the analysis simulates the effect on the rest of the economy as current childcare workers earning higher incomes, and new childcare workers spend their new income on goods and services throughout the economy. This induced effect is important in order to get a complete picture of the effect of the $42.5 billion investment on the economy.

Results

▶ TABLE 4: CHILDCARE ANALYSIS

We find that direct job creation in childcare is 640,410, which results in a new total childcare workforce of 1,142,980, all of whom are paid a minimum of $15/ hour. Indirect and induced job creation is an additional 334,793 (note that wages for these workers are not adjusted). Total new labor income is $41,279,065,576, showing a net gain as a result of the initial investment.

Table 4 also presents the results of the same analysis for selected states.

SECTION 4: Conclusion

Without care, the U.S. workforce cannot work. The care infrastructure is a vital component of building back the U.S. economy, and it is critical that care work is respected with family supporting- wages and benefits. This Research Brief shows the positive effects that investing in the care workforce, and providing paid family and medical leave, will have not only on workers directly experiencing the benefits, but on the broader economy. Along with increasing labor force participation, racial and gender equity, and quality of life for the young, the old, and everyone in between, investing in care will positively strengthen the entire U.S. economy.

APPENDIX I: Summary of Proposed Federal Legislation

For a detailed summary, see: New National Paid Leave Proposals Explained by Vicki Shabo (2021).

Both the FAMILY *Act*, the Building an Economy for Families *Act*, and the initial design of the *American Family Plan* include:

- Universal paid family and medical leave for all U.S. workers, including in all size businesses, part-time workers, independent contractors and the self-employed;
- Providing workers with up to 12 weeks of partial income when they take time for their own serious health conditions, including pregnancy and childbirth recovery; the serious health condition of a child, parent, spouse or domestic partner; the birth or adoption of a child; and/or for particular military caregiving and leave purposes.
- Uses a progressive wage replacement structure;
  - The *Building an Economy for Families Act* uses the tiered wage replacement structure described above;
  - The *Family Act* uses a ⅔ wage replacement ratio up to a certain cap;
- Tasking a new federal agency with administering the new paid leave benefit;
- Paid for through public investment.

Endnotes

1 The survey was conducted in March 2020; thus it is likely not unduly biased by the pandemic.

2 See state-level fact sheets from the National Partnership for Women & Families for state-level detail: https://www.nationalpartnership.org/our-work/economic-justice/paid-leave-means-map.html.

3 For more detail on state paid family and medical leave programs, see recent Congressional testimony by Vicki Shabo, Senior Fellow for Paid Leave Policy and Strategy, Better Life Lab at New America (p. 10-12): https://www.help.senate.gov/imo/media/doc/Shabo1.pdf.

4 Shabo (2021).

5 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/BEFSectionXSection.pdf.

6 Note that we are assuming for the purposes of this analysis that all funds go to services which have the same ratio of dollars spent to FTEs. We will use the resulting labor compensation for current workers and the compensation of new employees together to determine the broader effects on the rest of the economy in terms of employment creation, as current workers and new workers together spend their increased funds (this will not include the funds that current workers are currently spending; i.e., if a current worker's wage goes from $10 to $15, we are modeling just the effect that the $5 change in their compensation has on their consumption of goods and services and thus resulting employment effects in non-HCBS sectors.

7 Note that we do not include here the $25 billion allocated in the American Jobs Plan for an upgrade of U.S. childcare facilities, which is an important component of strengthening the childcare sector, but would create employment in the construction and maintenance industries, having a substantially different economic effect. We also do not model the specific effects of the various components of the current proposal, but rather view the total proposed investment as a positive shock to the childcare workforce and industry in order to give a broad estimate of impacts.

8 Note that we are assuming for the purposes of this analysis that all funds go to services which have the same ratio of dollars spent to FTEs. We will use the resulting labor compensation for current workers and the compensation of new employees together to determine the broader effects on the rest of the economy in terms of employment creation, as current workers and new workers together spend their increased funds (this will not include the funds that current workers are currently spending; i.e., if a current worker's wage goes from $10 to $15, we are modeling just the effect that the $5 change in their compensation has on their consumption of goods and services and thus resulting employment effects in non-childcare sectors.

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