

Faculty Research Fellows Program

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Paid Sick Leave: Access, Costs and Feasibility of Implementation at the State Level

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SACRAMENTO STATE
Center for California Studies

PAID SICK LEAVE: ACCESS, COSTS AND
FEASIBILITY OF IMPLEMENTATION AT THE STATE LEVEL

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Sincerely,

Timothy A. Hodson
Executive Director
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EXECUTIVE SUMMARY

This study examines paid sick leave as an employment benefit in the California workforce. The policy question of interest is: should the state continue to allow employers to voluntarily decide whether or not to offer paid sick leave to their employees or should the state instead enact legislation mandating that every employer provide paid sick leave. The key findings of the report are that:

Many workers are now not receiving any paid sick leave. About **6.5 million** California workers (40% of all workers) are not now receiving paid sick leave from their employers under the state's voluntary system.

Large numbers of Hispanic workers do not receive paid sick leave. Over **3 million** of California's 5.4 million Hispanic workers are not currently receiving paid sick leave from their employers.

Most workers not receiving paid sick leave are in low wage jobs. Workers who are not currently receiving paid sick leave are concentrated in relatively low wage jobs. These are those workers with relatively lower levels of educational attainment.

Most workers with paid sick leave do not use very much of it. Workers whose employers currently provide them with paid sick leave use an average of just **5.5 days of leave each year** for their own health needs and the needs of other close family members such as children, spouses and parents.

California has been an innovator in extending leave benefits to the workers in the state. California's laws and policies regarding sick and family leave are more extensive in scope, coverage and innovation than those in most other states.

The cost of providing paid sick leave to uncovered workers would be relatively low for most employers. If the State were to mandate paid sick leave, the direct costs to most employers would be relatively low. This study estimates that the direct payroll costs to representative employers in construction, retail, restaurant and hotels would range from **between \$299 and \$862 per employee annually**.

Employers realize hidden indirect benefits when they provide paid sick leave. Labor productivity has been shown to be higher, and labor turnover lower for firms providing paid sick leave to their employees. The spread of contagious illness is reduced, and fewer other workers get sick.

POLICY IMPLICATIONS

The key policy question is whether or not California should impose a mandate on employers to provide paid sick leave to their employees. Both advocates and opponents make valid points when addressing the consequences of mandating paid sick leave, however there are clear policy implications that emerge from this report.

First, if such a mandate were to be enacted, its economic effects would likely be relatively small, since the direct cost to employers has been estimated in the study to be relatively small, ranging from \$299 and \$862 per employee annually for a representative group of employers. While these are not trivial sums, they nonetheless represent a relatively modest cost increase. Further, perhaps as much as 10% of these direct costs may be offset by hidden indirect benefits. All in all, the economic consequences are likely to be relatively minor.

There are likely to be important, if immeasurable, benefits to citizens of the state if access to paid sick leave is improved. Evidence presented here shows conclusively that under the current voluntary system, paid sick leave is unequally distributed among California workers. Hispanic workers in particular receive paid sick leave in low amounts. Lowly paid, less educated workers in general are the least likely to currently receive paid sick leave. Mandated paid sick leave would level the playing field in terms of who receives this employment benefit.

Mandating paid sick leave would certainly remove some degree of flexibility and freedom the employment system now affords, and the direct cost of providing paid sick leave would need to somehow be absorbed in the form of reduced wages and other benefits for workers, and reduced profits for employers. Though likely to be small, these costs would nonetheless probably be borne unequally. Small businesses on thin profit margins may well be less able to absorb a profit loss than larger businesses. Some workers already paid a low wage will likely see some degree of slower wage growth over time as a result.

INTRODUCTION

On February 5, 2007, San Francisco became the first city in the United States to require all employers to provide paid sick leave to their employees. Enactment of San Francisco's Paid Sick Leave Ordinance provided an important political boost to the ongoing movement to pass similar laws elsewhere in the country. By the end of 2007, thirteen state legislatures were considering various state-wide mandatory sick leave bills¹. At the federal level, congressional Democrats introduced legislation on March 15, 2007 that would require most employers throughout the United States to provide up to seven days of paid sick leave to their employees². Most recently, on March 4, 2008, Washington D.C. became the nation's second city to pass an ordinance mandating employers to provide paid sick leave for employees in the District of Columbia.

Advocates for requiring businesses to provide paid sick leave to their employees cite statistics showing that under the current voluntary system, fewer than 60% of the nation's employees receive this employment benefit. Further, those who do not receive paid sick leave fall disproportionately at the lower end of the socio-economic spectrum. Advocates also argue that the cost to employers of the mandate would be relatively small, and that some or most of this cost would be offset by other, indirect gains. Opponents of laws requiring businesses to provide paid sick leave argue that mandating employment benefits such as paid sick leave imposes an unnecessary and undue regulatory burden on employers. Opponents further argue that the cost of mandating paid sick leave would be

¹ Connecticut, Florida, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, North Carolina, Ohio, Pennsylvania, Vermont and Virginia according to Cauchon (2007).

² The Healthy Families Act, S. 910 and H.R. 1542. See Leonard (2007).

relatively high and would result in reduced economic growth, the loss of jobs, and lower wages.

This study explores the basic nature of paid sick leave in the California workplace. It examines the economic arguments for and against mandatory sick leave in some detail. It surveys the state's legal and policy framework as it relates to sick leave and other closely related types of leave and compares California's policies to those in other states and countries. The study presents data on the demographic, and job-related characteristics of California workers who do and do not receive paid sick leave. The costs of providing paid sick leave to workers already receiving it are examined, and estimates are presented of the cost to employers for providing paid sick leave to workers currently not covered. Finally, some of the hidden indirect benefits employers might realize by providing paid sick leave to uncovered employees are discussed.

Throughout the discussion, the policy question of interest is: should the state continue its policy of allowing employers to voluntarily decide whether or not to offer their employees paid sick leave, or should the state enact legislation mandating that every employer in the state provide paid sick leave to its employees. While no recommendation for or against mandatory sick leave is made in this report, it does provide a thorough evaluation of the key arguments for and against in its conclusion.

PAID LEAVE AS AN EMPLOYMENT BENEFIT IN THE U.S.

The United States, unlike many other advanced economies, does not legally require employers to offer paid leave to their employees. In fact, U.S. law does not even require employers to provide *unpaid* leave, with one notable exception³. Instead, the U.S. relies on a voluntary system where paid leave is but one of a number of employment benefits employers might elect to offer their employees including health insurance, retirement benefits, life and disability insurance, etc. Why do employers offer such employment benefits if not required to do so? Much like higher wages, higher levels of employment benefits are desirable to workers and are valued by them. In order to attract the most qualified and productive workers and to keep them employed with the company, employers often find it to be in their own best interest to voluntarily offer relatively generous employment benefits to their employees. Under this voluntary system, employees are themselves free to leave a job in order to move to a better one, and many will do so if the first job does not offer generous benefits while other similar jobs do offer such benefits. On the other hand, if similar jobs for which the worker is qualified also do not offer such benefits, the worker may be forced to accept a position without benefits, even when they would desire one with benefits.

Though not mandated, many other types of paid leave are offered to workers besides paid sick leave under this voluntary employment system. These include: paid holidays, vacation, military service leave, personal leave, family leave, funeral leave and leave for jury duty. Many workers in the U.S. do not receive any paid leave of any kind.

³ The Family and Medical Leave Act of 1993 mandates employers to provide unpaid medical and family leave to their employees.

Table 1 shows that 43% of all private sector workers in the U.S. receive no paid sick leave under this voluntary system. This is more than those who do not receive paid holidays and paid vacation, but less than those who receive no paid leave for military service or paid family leave.

Table 1
Percent of U.S. Private Sector Workers
Not Receiving Specific Types of Paid Leave, 2007

	Estimated Percent Not Receiving Paid Leave
U.S. Private Sector Workers Not Receiving:	
Paid holidays	23%
Paid vacation	23%
Paid jury duty leave	29%
Paid funeral leave	31%
Paid sick leave	43%
Paid military service leave	51%
Paid personal leave	62%
Paid family leave	92%

Source: National Compensation Survey, 2007

While the U.S. system relies largely on a voluntary system of employment benefits offered by employers, there are no constitutional or legal constraints preventing government from requiring employers to provide either paid or unpaid leave, and the government has intervened in this area before. For example, in 1993, the federal Family and Medical Leave Act was enacted, and for the first time employers throughout the U.S. were required to allow their workers to take extended *unpaid* leave when the workers themselves suffered a serious personal health problem, or needed to care for a newborn or newly adopted child or a sick older child, spouse or parent. States and municipalities are generally free to pass laws and ordinances requiring employers within their jurisdictions

to offer specific amounts of paid or unpaid leave, as evidenced by San Francisco's and Washington D.C.'s recent paid sick leave ordinances. Still, such governmental interventions have been relatively infrequent, and for the most part, government at all levels has been guided by the principle that employment benefits are best determined through the voluntary process described above, and government has been reluctant to step in and impose specific leave mandates on employers.

When considering the advisability from a policy standpoint of mandating paid sick leave benefits, it is important to bear in mind that paid sick leave is a relatively small part of a much larger voluntary system used in the U.S. for determining wages, benefits and working conditions. Not every economy relies on the same sort of voluntary system. Most European countries, for instance, rely to a much greater extent on laws and regulatory rules to determine the norms for employment benefits and basic working conditions. This type of system allows for less freedom and flexibility than the voluntary system used in the U.S., and many economic studies have attempted to demonstrate and document the degree of inefficiency that results from it. For instance, there is a long literature on the macroeconomic consequences of Europe's inflexible labor markets, largely caused by employer mandates.

Finally, it is useful to bear in mind that if the government were to intervene and require employers to offer paid sick leave, it would still leave largely intact the rest of the existing voluntary system for determining other types of paid leave and employment benefits. Advocates of mandated paid sick leave argue that paid sick leave should be given a higher priority than other types of paid leave because of the important public health benefits associated with it. Workers who have no paid sick leave and go to work while sick are more likely to spread sickness to other workers. The provision of paid sick

leave helps to prevent the spread of contagious illness among co-workers. Understanding how paid sick leave fits into the larger picture of how leave as an employment benefit is generally determined in the voluntary system in the U.S. allows us to more carefully examine the economic arguments made in favor of or in opposition to mandating paid sick leave.

THE ECONOMIC CASE FOR MANDATORY SICK LEAVE

Advocates for laws mandating paid sick leave such as Watkins (2004) and National Partnership of Women and Families (2004) cite statistics produced by the U.S. Bureau of Labor Statistics showing that only 57% of all U.S. workers received paid sick leave in 2007 under our voluntary system. Advocates usually view paid sick leave in equity terms and point to figures showing that workers lower down on the socio-economic scale (those with lower wages, less education, in blue-collar occupations, etc.) are less likely to receive paid sick leave from their employers than those in higher positions. From this perspective, sick leave advocates argue that the current voluntary system is unfair in the sense that every worker has the same need to stay home when ill, but that it costs low income workers much more to do so than it does upper income workers. When a low-income worker with no paid sick leave opts to stay home, the worker forfeits their wages and earns even less that pay period. The higher income worker who has paid sick leave, on the other hand, suffers no wage loss when electing to stay home sick.

Advocates for paid sick leave often tie it to the wider issue of caring for other close family members such as children or aging parents. They cite figures showing that

for all sick leave taken by workers for medical reasons, only about half is taken for the worker's own health needs, and more than one-third is taken to take care of some other family member. The remainder is taken for reasons related to maternity or caring for a newborn child⁴. Much of this leave takes on a gender component, as other research demonstrates that women in the U.S. are much more likely than men to care for other family members and stay home with newborn children.

Those who advocate mandatory sick leave also view the issue from an efficiency standpoint, and claim that the cost to employers is relatively small. They cite Bureau of Labor Statistics figures indicating that the dollar cost to employers for paid sick leave amounts to about one percent of total labor compensation⁵. One relatively thorough economic analysis of the San Francisco sick leave ordinance, Lovell (2006), conducted for an advocacy organization, estimated that providing paid sick to uncovered workers in San Francisco would directly cost employers less than \$300 on average per worker per year.

Finally, mandatory sick leave advocates argue that much if not all of the cost to employers of providing paid sick leave to all employees would be offset by hidden benefits that would effectively reduce costs. For example, when workers have no paid sick leave, they are more likely to come to work when sick, but are less productive on the job, even though they are being paid as much as if they were fully productive. This means that employers who are not providing paid sick leave are already absorbing a hidden cost by not doing so, and this hidden cost would be eliminated if they were to

⁴ Department of Labor, *Balancing the Need* (2000).

⁵ See Table 1, U.S. Bureau of Labor Statistics (2007).

provide paid sick leave. It is additionally argued that there is greater labor turnover in jobs that do not offer paid sick leave, and that employers not providing paid sick leave are already absorbing the hidden cost associated with higher turnover. Again, this hidden cost would be eliminated if they and every other employer were required to provide paid sick leave. A third hidden cost results when workers come to work sick where they are more likely to spread communicable illness like the flu or colds to other workers. Because sick workers cause other workers to become sick, company productivity declines. This represents additional hidden cost that employers are already absorbing by not providing paid sick leave to employees. When all these hidden costs are added up, according to advocates of mandatory sick leave, the benefits to employers of reducing these costs by providing paid sick leave would often entirely offset the direct costs of providing paid sick leave to workers currently not receiving it.

THE ECONOMIC CASE AGAINST MANDATORY SICK LEAVE

Opponents of laws requiring employers to provide paid sick leave⁶ counter that the current voluntary system used in the United States offers a great deal of flexibility and freedom of choice to both employers and employees that would be sacrificed if sick leave were to be mandated. Opponents of mandated paid sick leave generally oppose any mandates on employment benefits as a matter of principle. They emphasize that the process by which employers freely offer and employees freely accept various elements in wage/benefit package is a finely balanced mechanism. Changing any one component of

⁶ For examples, see Sherk (2007), Ober and Lynd (2006) and Council of Smaller Enterprises (2008).

this package will necessitate other changes. For example, an increase in a benefit like paid sick leave that imposes a higher cost on employers, will inevitably be offset by a decrease in either the wage or some other benefit. Under the voluntary system used in the U.S., when employers are able to flexibly choose whether or not to offer paid sick leave to their employees as an employment benefit, they are most able to tailor their specific workforce needs to the existing pool of available workers they would like to attract.

Workers, under the current voluntary system, can freely choose whether or not to take a job or remain in one on the basis of how they would personally benefit from the various elements in the wage benefit package offered by a potential or existing employer. Some workers might well prefer jobs that offer paid sick leave and be willing to exchange this for lower wages or lower levels of some other benefits. Other workers might prefer just the opposite. Under the voluntary system, according to this view, both employers and employees are free to choose the wage/benefit package best suited to their own individual needs. If paid sick leave, or any other benefit, were mandated, it would remove some flexibility from this process, and place some employers and employees in a worse position. For example, the worker who would have preferred a package offering a higher wage but no sick leave would be forced instead to accept a package with lower wages and with sick leave simply because of the law. If they had wanted that package in absence of the law, they were free to seek it out by insisting on it or seeking another job, but they preferred the higher wage/no sick leave combination instead. Under the law, that combination would no longer be available, so the worker would be worse off.

Those who oppose requiring paid sick leave insist that workers will ultimately pay a large part of the cost of this mandate indirectly in the form of reduced wages and other

benefits. Additionally, opponents argue that these costs are likely to be relatively high and that they will lead to unintentional increases in other costs. While I am not aware of any specific studies conducted to analyze the extent to which sick leave costs are passed along in the form of lower wages and other benefits, opponents point to other studies showing that when employers begin offering new employment benefits (such as health insurance), these costs are partially passed along to workers in the form of reduced wages. While opponents sometimes imply that all or nearly all of the costs of mandatory sick leave would be passed along to workers in the form of reduced wages and benefits, both economic theory and empirical labor market studies suggests that only some of these costs would be passed along to workers, with the remaining portion of these costs being borne by employers in the form of reduced profits.

Small businesses have been particularly adamant in their opposition to mandatory paid sick leave laws, and from an economic standpoint, their opposition makes a certain amount of sense. Besides the tradeoff between wages and the cost of benefits described above, there are additional administrative and adjustment costs associated with offering paid sick leave to employees, and these administrative and adjustment costs are likely to be proportionally higher for smaller businesses than larger ones. Small business is a somewhat arbitrary category, usually defined in terms of having a small number of employees (fewer than one hundred employees is one widely used measure).

Opponents of mandatory sick leave essentially argue that the free market works best in the case of employment benefits, and that any intervention by government would be inefficient. From a theoretical standpoint, it is relatively easy to show that when inefficiencies are introduced into the labor market, reduced economic growth, job losses and lower wages are likely to follow. The important question from a policy standpoint,

however, is how large are these effects likely to be in practice for a relatively modest intervention like mandating paid sick leave. This is an empirical and not a theoretical question. Unfortunately, opponents of mandatory sick leave have produced no empirical studies that I am aware of that would empirically demonstrate the relative size of these effects.

SICK LEAVE AND OTHER CLOSELY RELATED TYPES OF LEAVE IN PRACTICE

From a legal, policy and practical standpoint, sick leave is often hard to separate from other closely related types of leave: personal leave, flexible sick leave, family leave and short-term disability leave. Employers often provide different combinations of these leaves, and the differences between them depend as much on duration of time as purpose of use. Sick leave is typically used on a relatively short-term basis when workers need to take a brief time off to recover from a relatively minor and short-lasting illness or injury. Sick leave is also often used when a child or other close family member is ill and an employee needs to stay home to care for them. Some of the other forms of leave are used for more extended absences during health or family situations of longer duration. When an employee has a serious illness or injury requiring many weeks of recovery, they often exhaust their sick leave. In certain cases, they can go on short-term disability leave. Women who give birth are often absent from work for many weeks in order to care for their newborn child, and family leave can sometimes be used in these circumstances.

In the past, employers typically allowed workers to only use sick leave for their own recovery from personal illness or injury. Increasingly, however, employers have widened the scope under which sick leave can be used, and today many employers allow

employees to use sick leave to care for children or other close family members. Still, many other employers continue to restrict sick leave use to the worker's own personal recovery from illness or injury. California has been one of only five states so far to mandate "flexible" sick leave for private sector employers. The term flexible sick leave refers to allowing employees to use their own sick leave for the purpose of caring for children, spouses, domestic partners, parents or other close family members. Several other states, including Maryland, are currently considering flexible sick leave legislation.

During the past twenty years, it has become an increasingly common practice for employers throughout the U.S. to offer personal leave in addition to or in lieu of sick leave. Employees are allowed to use personal leave at their own discretion for any personal reason, including when they themselves are sick or when they need to care for other family members. Bureau of Labor Statistics show that 38% of private sector workers were offered some type of paid personal leave by their employers in 2007. Somewhat less common is paid family leave offered to workers who take extended time off under provisions of the Federal Family and Medical Leave Act. Just 8% of all workers in the U.S. were offered some type of paid family leave by their employers in 2007⁷, with wage replacement rates varying by employer.

Five states, California, Hawaii, New Jersey, New York and Rhode Island, operate state-administered short-term disability insurance programs that cover nearly all private as well as public sector workers in the state. Twenty-four other states have similar short-term disability insurance programs for their state employees but do not require these for

⁷ Figures from Table 1, U.S. Bureau of Labor Statistics (2007).

private sector employees. These programs, funded through employee payroll contributions, allow workers to partially replace some of their lost earnings when they are unable to work for some extended period due to an illness or injury. Because of structural features in the way benefits are allowed, short-term disability insurance is not normally used as a substitute for paid sick leave, and workers typically use disability insurance when whatever sick leave benefits they are entitled to have been exhausted. Short-term disability insurance can also often used by women who are pregnant or who have just given birth.

When the federal government enacted the Family and Medical Leave Act in 1993, the law stipulated specific medical and family circumstances under which employers would be required to provide unpaid leave to their employees. Employees are now allowed unpaid leave for up to 12 weeks per year to recover from personal illness or are needed to care for a sick child or other close family member or care for a newborn or newly adopted child. Employers have responded to this new legal environment by adding and combining various types of leave described above, both paid and unpaid. In some instances, states like California have developed programs that allowing workers to be paid partially or in full for the longer-term needs envisioned under the Family and Medical Leave Act. Some of these efforts are described in the next section.

HOW CALIFORNIA'S SICK LEAVE LAWS COMPARE TO THOSE OF OTHER STATES

No state in the nation requires that private sector employers provide their employees with paid sick leave. However, among the states, California's policies and laws regarding sick and family leave are among the most extensive in terms of scope,

coverage and innovation. This fact was recognized in 2004 when the National Partnership for Women and Families, a well-respected advocacy group, rated California as the highest rankings state in terms of its legislative approach to sick leave and family leave for its workers⁸.

As mentioned in the previous section of this report, California is one of only five states operating short-term disability insurance programs. The California State Disability Insurance program (SDI), first established in 1946 and funded entirely through mandatory employee payroll contributions, covers nearly every private sector worker in the state⁹. Under this program, workers can receive partial wage replacement for up to 52 weeks when they are unable to work due to a non-work related illness or injury. Because SDI requires a one-week waiting period before a worker can receive benefits, the program is not an practical replacement for paid sick leave in cases of brief and or minor illnesses and injuries. Women who are pregnant or have just given birth are also eligible for partial wage replacement under this program for pregnancy-related disability and recovery after birth. The average weekly benefit per recipient under this program in 2007 was \$405, when 183,347 claims in all were filed¹⁰.

An example of how California has been an innovator in the area of sick and family leave is the state's Paid Family Leave Insurance program, introduced in 2002, the first one like it in the nation. This program, a component of the state's SDI program, is also funded entirely through mandatory employee payroll deductions. It allows nearly every private sector worker in the state to receive partial wage replacement for up to six

⁸ See National Partnership for Women and Families (2004) for detailed information about various state laws and policies regarding sick leave and other closely related types of leave.

⁹ Most state employees are covered under a separate program described below.

¹⁰ Figures from California Employment Development Department (2008a).

weeks in order to care for a seriously ill child, spouse, domestic partner, parent, or to bond with a newborn child, newly adopted child, or newly placed foster child. The average weekly benefit for a recipient under this program was \$450 in 2007, when a total of 183,347 claims were filed¹¹. In 2007, Washington enacted a law setting up family leave insurance in that state, and legislative bills to establish similar programs are currently being considered in Illinois and New Jersey.

California is one of only five states¹² with mandatory flexible sick leave. In these states, employees who receive paid sick leave through their employers are allowed to use some portion of it to care for sick children or other close family members.

California is also among the most generous of states when it comes to providing paid sick leave and paid family leave for state employees. State employees are automatically provided with 12 days of paid sick leave per year, as well as one additional day of paid personal leave. Like employees in the private sector, state employees can use their own sick leave to care for sick children, spouses, domestic partners or other close family members. Most state employees are covered under a separate short-term disability insurance program called Non-Industrial Disability Insurance (NDI) that features a lower wage replacement rate and shorter time coverage than SDI. NDI also lacks a paid family leave benefit.

¹¹ Figures from California Employment Development Department (2008b).

¹² Connecticut, Hawaii, Minnesota and Washington are the others.

Table 2
States with More and with Less Generous
Sick and Family Leave Policies than California, 2004

	Number of States with a More Generous Policy than California's	Number of States with Same or Similar Policy to California's	Number of States with a Less Generous Policy than California's
All Workers, Private and Public Sector			
Family leave insurance	0	1	49
Short-term disability insurance	0	4	46
Flexible sick leave	0	4	46
State Employees			
Number of paid sick leave days provided	25	20	5
Number of paid personal days provided	15	4	31
Short-term disability insurance	0	30	20

Source: National Partnership for Women and Families (2004)

Table 2 provides a broad picture of the relative generosity of California's sick and family leave laws and policies as compared to other states. The table shows the number of states with a more generous policy, a similar policy, or a less generous policy than California's for three policies for all private and public sector workers. It also compares the relative generosity of California's policies for state employees for three specific policies. As can be seen, no state has more generous policies affecting all public and private sector workers, and only a few have similarly generous policies. When it comes to the number of paid sick leave days and paid personal leave days offered to state employees, California trails a number of states. California offers state employees 12 paid sick days per year, whereas a number of other states offer 15 or 13 days. California offers its state employees just 1 day of paid personal leave per year, while fifteen states offer more than this, typically 3 to 5 days.

HOW U.S. SICK LEAVE LAWS COMPARE TO THOSE OF OTHER COUNTRIES

The U.S. is unusual among countries at similar levels of economic development in not mandating private sector employers to provide paid sick leave to their employees. Only Canada and Ireland among countries at a similar level of development also do not mandate paid sick leave. The U.S. relies primarily on a voluntary system for determining wages and benefits, whereas most other nations legally mandate specific levels of employment benefits such as sick leave. Advocates of mandatory sick leave, as we have seen, argue that the voluntary system results in the most vulnerable, socio-economically disadvantaged workers not having access to paid sick leave. Opponents of mandates maintain that the voluntary system used in the U.S. allows employers greater flexibility and workers a wider array of choice than if benefit levels were legally mandated at some specific level.

In a survey of family leave policies in 163 countries, researchers at the Harvard School of Public Health, found not only that U.S. trails most other nations at a similar level of development like the U.K., France and Japan, but also trails many countries at lower levels of economic development like Mexico, Taiwan, South Africa and Argentina¹³. Sick leave information provided in the Harvard study suggested an almost bimodal distribution of incidence of paid sick leave in the sample of countries in the study. Forty-six countries in their sample were like the U.S. and had no laws mandating paid sick leave. At the other end of the spectrum, were 99 countries that mandated 30

¹³ Heymann, et al, (2004).

days or more of paid sick leave. In terms of wage replacement for countries mandating paid sick leave, the Harvard study reported that nearly two-thirds of the 123 countries in their sample guaranteed that workers received between 50% and 74% of their wages for days when they are using sick leave. The general focus of the Harvard study was on family leave policies in general and subsequently, there was no country-specific information provided on minimum number of sick days mandated, the percentage of wage replacement or the source of wage replacement, only the aggregate figures cited above.

The International Labor Organization maintains a series of country-specific profiles of labor law on its website and this offers a useful cross-country comparison of minimum number of sick days mandated as well as the percentage and source of wage replacement in a selected group of countries¹⁴. In addition, I was able to find similar information for a small number of countries not included in the International Labor Organization series from other internet sources.

¹⁴ International Labor Organization (2008)

Table 3
Minimum Number of Legally Mandated
Days of Employer Provided Paid Sick Leave for Selected Countries

	Minimum Number of Days
Ireland	0
Canada	0
U.S.	0
South Korea	0
Finland	9
Australia	10
Japan	10 ²
Spain	15 ²
Hungary	15 ²
United Kingdom	28 ²
South Africa	30
Germany	45
Russian Federation	45 ¹
Sweden	45 ²
Argentina	90 ¹

Source: International Labour Organization, Dialogue: Social Dialogue, Labour Law and Labour Administration.

¹ Social Security rather than employer the source of wage replacement.

² Information obtained from additional internet sources.

Table 3 shows the minimum number of days of paid sick leave mandated in various countries according to information from the International Labor Organization (2008) and other internet sources. As can be seen, the U.S. is joined by Ireland, Canada and South Korea in not mandating any paid sick leave. For every country that did mandate paid sick leave in this selected sample, 100% of wages were replaced. In Argentina and the Russian Federation, however, wage replacement came from the social security system and workers are required to submit claims in order to receive payment.

TRENDS IN PAID SICK LEAVE IN THE U.S.

We turn now to the characteristics of firms and workers in the U.S. where paid sick leave is offered to employees. Under the voluntary system used in the U.S. to determine paid sick, there is a great deal of variation among different groups of workers in terms of who does and who does not receive it. Workers in some regions of the country are more likely to receive paid sick leave than those in other regions. Employees in certain industrial sectors in the economy receive paid sick leave in higher proportion than employees in other sectors. Similarly, workers in certain occupations receive paid sick leave in higher proportion than those in other occupations. Over time, the level of paid sick leave received by all workers has declined and a significantly smaller proportion of workers receive paid sick leave from their employers today than did twenty years ago, a trend that holds true in every region, industrial sector and occupation.

The primary source of data on how the percent of paid sick leave received by workers varies by region and industrial sector comes from the Bureau of Labor Statistics annual National Compensation Survey (NCS). This and several other data sources are discussed in some detail in the Data Appendix of this report. There, several drawbacks to using the NCS data are also discussed. Chief among these drawbacks is the fact that the Bureau does not allow independent researchers access to the underlying micro-level observations collected in the survey. As a result, researchers such as myself are unable to statistically analyze this data directly to address specific research questions of interest. Instead, the Bureau analyzes data from the survey internally, and publicly releases some summary statistics on the percent of workers who receive paid sick leave benefits. While this and other drawbacks limit the degree to which research questions can be formulated

and empirically addressed, the NCS summary statistics released by the Bureau do provide us with an important picture of who is and who is not receiving paid sick leave in the U.S..

Figure 1
Percent of Workers Receiving
Paid Sick Leave by Region, 2006

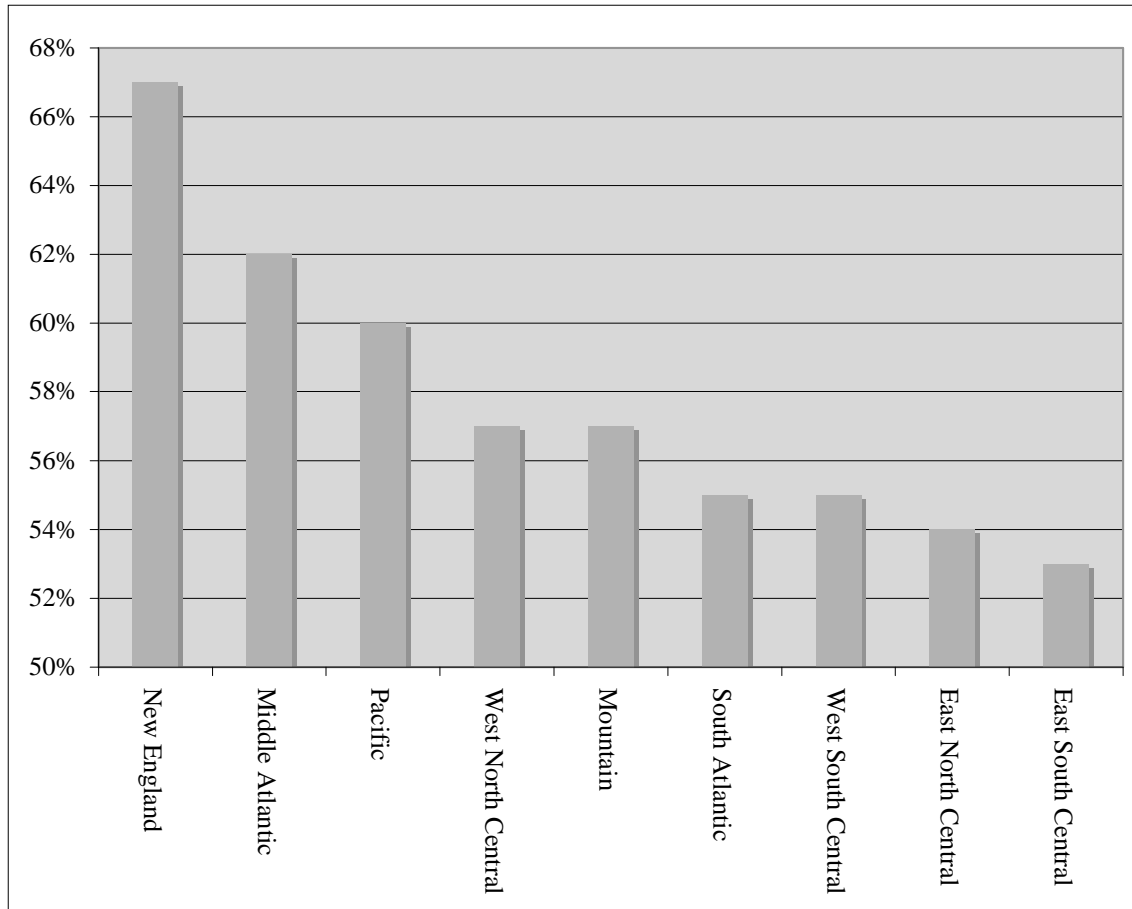
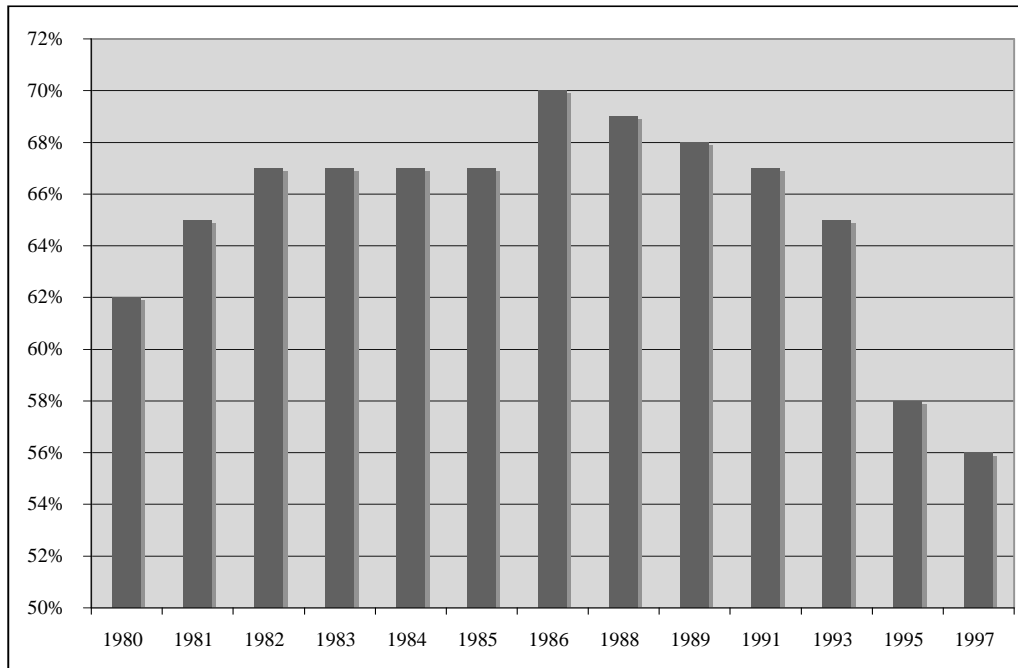


Figure 1 gives some sense of the degree of regional variation in the incidence of paid sick leave. Because the Bureau does not make the underlying micro-level data from the NCS survey available for public use, it is not possible to extract state-specific estimates of paid sick leave received by California workers. Since 1999, the Bureau has released summary statistics of the percent of workers receiving sick leave in the nine

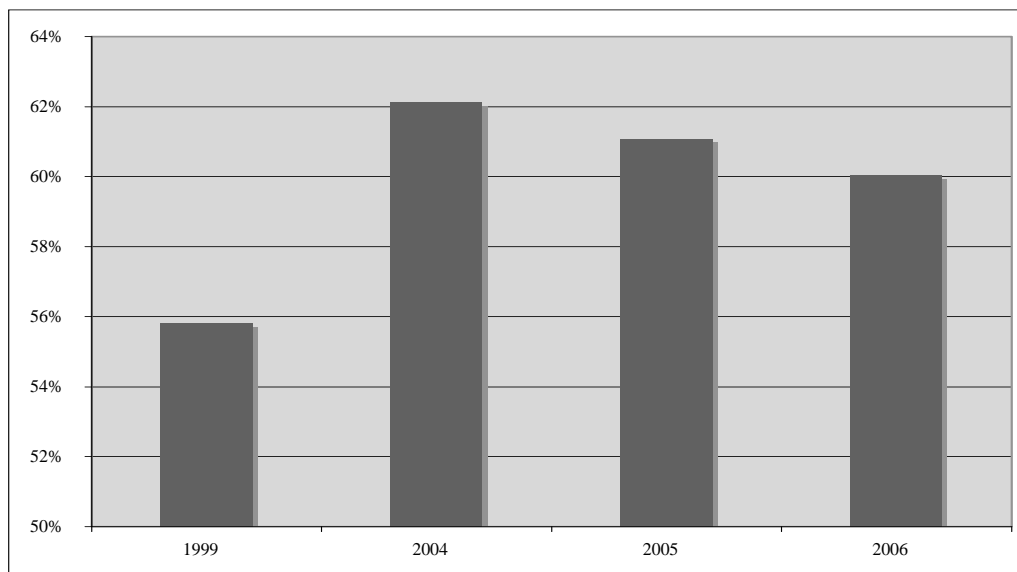
regions of the U.S. shown in the figure. California belongs in the Pacific region, along with Alaska, Hawaii, Oregon and Washington. Figure 1 shows that the Pacific region ranked third among the nine national regions in 2006 with 60% of its workers receiving paid sick leave as an employment benefit.

Figure 2
Percent of U.S. Workers Receiving Paid
Sick Leave in Medium and Large-Sized Establishments



To gain a sense of how the percent of workers receiving paid sick leave has changed over time, it is useful to examine NCS summary statistics from earlier years. Between 1980 and 1997, the NCS tracked employer provided paid sick leave at medium and large-sized establishments (those with over 100 employees) in the U.S. This data was not provided at the regional level at that time. Figure 2 shows that the percent of U.S. workers receiving paid sick leave in these firms increased from 62% in 1980 to 70% in 1986, after which it declined to 56% by 1997, the last year for which summary statistics in this series are available.

Figure 3
Percent of Pacific Region Workers Receiving
Paid Sick Leave in Establishments of All Sizes



After 1997, the Bureau of Labor Statistics began reporting summary statistics for establishments of all sizes, including in the measure establishments with fewer than 100 employees. As a result, data after 1997 is not entirely compatible with the earlier data obtained for medium and large-sized establishments. In an additional change, after 1997, the Bureau began providing regionally specific data on the percent of workers with paid sick leave. Figure 3 shows the percent of workers in the Pacific region that received paid sick leave in 1999, 2004, 2005 and 2006 (no data was provided for years between 2000 and 2003). Figure 3 shows that the incidence of paid sick leave in the Pacific region increased from 55.8% in 1999 to 62.1% in 2004. By 2006, however, this incidence had fallen again to 60.0%.

Table 4
Percent of U.S. Workers Receiving Paid
Sick Leave and Other Closely Related Leave Benefits, 2007

	Percent of U.S. Workers Receiving Paid Sick Leave	Percent of U.S. Workers Receiving Paid Personal Leave	Percent of U.S. Workers Receiving Paid Family Leave
All workers	57%	38%	8%
Occupation			
Managers and professionals	80%	57%	14%
Sales and office	63%	40%	9%
Production and transportation	47%	33%	4%
Construction, maintenance, natural resources	44%	27%	6%
Service	39%	26%	5%
Other worker characteristics			
Full-time employment	68%	44%	9%
Part-time employment	23%	21%	5%
Average hourly wage above \$15	72%	48%	11%
Average hourly wage below \$15	44%	30%	5%
Establishment Characteristics			
Service producing	60%	40%	9%
Goods producing	47%	33%	6%
More than 100 employees	67%	51%	10%
Fewer than 100 employees	48%	27%	6%

Source: U.S. Bureau of Labor Statistics, National Compensation Survey (2007).

The publicly released 2007 summary of findings from the NCS¹⁵ provides additional insight into how paid sick leave and paid personal and family leave vary by characteristics of employees and their employers. As can be seen in Table 4, workers in

¹⁵ See U.S. Bureau of Labor Statistics (2007).

managerial, professional, sales and office occupations receive all three types of leave in higher proportions than workers in other occupations. Full-time workers are much more likely to receive paid sick leave and closely related leave than part-time workers. The same is true for high-wage workers with hourly wages averaging more than \$15. In terms of employer characteristics, establishments producing services are more likely to offer their workers paid sick leave and closely related leave than those producing goods. Additionally, large employers with over 100 workers in each establishment are more likely than small employers to provide paid sick leave and closely related leave to their employees.

CHARACTERISTICS OF CALIFORNIA WORKERS WHO RECEIVE PAID SICK LEAVE BENEFITS

What kinds of workers in California are currently more likely to receive paid sick leave from their employers? Is there any truth to the claim by advocates of mandatory paid sick leave that the voluntary system in use in California and the rest of the U.S. is inequitable and leaves lowly paid and less educated workers without paid sick leave? Are racial and ethnic minorities or women less likely to receive paid sick leave? Table 4 gave some suggestion that workers in higher status, more highly paid jobs in the U.S. in general are more likely to receive paid sick leave. For example, there is a 28% difference in the proportion of workers receiving paid sick leave between those earning more than \$15 per hour and those earning less than \$15. Eighty percent of all managers and professionals receive paid sick leave, compared to only 39% of persons in service occupations. This section explores results from another data source that gives a much

clearer picture of an unequal distribution of paid sick leave benefits to California workers.

When it comes to identifying what kinds of workers in California do or do not receive paid sick leave, there are several limitations to using the NCS summary statistics covered in the previous section. The first problem is that the Bureau of Labor Statistics only releases its statistics on a regional and not state-specific basis. Because of this, it was necessary to base estimates used in this section of the report on adjustments to Pacific region summary statistics. According to the Bureau of Labor Statistics, there were a total of 20.5 million persons employed in non-farm jobs the Pacific region in 2006, and of those, 15.1 million were employed in California. I would therefore expect that since California workers account for nearly three-fourths of all workers in the Pacific region, that the characteristics and proportions of workers in California will be similar for the most part to those for the Pacific region as a whole.

The second problem with using NCS summary statistics is that the NCS is an establishment-level survey, and does not collect information on the individual demographic characteristics of the workers employed at the establishments surveyed. As explained in more detail in the Data Appendix to this report, researchers for the Congressional Research Service¹⁶ have been able to remedy this problem somewhat on a national (but not a regional or state-specific) basis by making use of survey information from another source, the Medical Expenditures Panel Survey (MEPS). In 2004, households in a nationally representative sample were asked in this survey if their employer provided them with paid sick leave. Their responses allowed researchers at the

¹⁶ See Levine (2007).

Congressional Research Service to link the individual characteristics of the workers and the jobs in which they were employed to the incidence of paid leave. Unfortunately, this question was only asked in 2004, so more recent data from the MEPS on paid sick leave is not available.

To estimate the incidence and degree of paid sick leave benefits received by California workers in different categories, I reconciled percentage estimates from the NCS and the MEPS summary statistics to account for differences between the Pacific region and the U.S. as a whole, as well as differences between 2004 and 2006¹⁷. I then applied these reconciled percentage estimates to the number of California workers in particular demographic categories in order to estimate the number of workers in each category with and without paid sick leave. I derived the estimates of the number of California workers in each category by statistically analyzing publicly available micro-level data from the 2006 American Community Survey (ACS). The ACS is a household-level survey conducted each year by the U.S. Census Bureau and asks the same questions that appear on the decennial census to a representative sample of American households.

¹⁷ In my calculations, I adjusted 2004 MEPS sick leave incidence percentages for the U.S. as a whole to make them compatible with 2006 NCS sick leave incidence percentages for the Pacific region. See the Data Appendix for a more detailed description of adjustments in these percentages.

Table 5
California Workers Receiving
Paid Sick Leave by Demographic Characteristics, 2006

	Estimated Percent Receiving Paid Sick Leave	Estimated Total Receiving Paid Sick Leave	Estimated Total Not Receiving Paid Sick Leave
All California Workers	60.0%	9,750,640	6,500,427
Gender			
Male	58.6%	5,268,807	3,716,416
Female	61.5%	4,465,491	2,800,353
Race/Ethnicity			
Hispanic, all races	44.1%	2,407,082	3,057,119
White, non-Hispanic	62.0%	4,548,650	2,782,900
Black, non-Hispanic	63.8%	584,878	331,966
Asian, non-Hispanic	63.4%	1,366,864	788,951
Age			
16-24 years old	27.1%	714,993	1,920,314
25-34 years old	62.6%	2,419,291	1,443,811
35-44 years old	66.9%	2,658,053	1,314,861
45-54 years old	70.9%	2,477,638	1,017,338
55 years and older	61.9%	1,415,297	869,471
Marital Status			
Single, never married	46.0%	2,581,738	3,031,131
Divorced, separated or widowed	60.5%	1,384,233	904,276
Married	67.3%	5,618,786	2,730,903
Educational Attainment			
Less than high school diploma	27.2%	715,358	1,911,881
High school diploma	54.7%	2,092,863	1,729,802
Some college	62.3%	3,105,475	1,876,527
Bachelor's degree (4 years)	78.6%	2,463,256	671,705
Post-graduate degree	82.7%	1,392,126	292,074

Source: Labor force data from author's calculations using 2006 American Community Survey data. Incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

Table 5 provides estimates of the percent and total number of California workers in 2006 who received paid sick leave benefits broken down by the basic demographic categories of gender, race, ethnicity, age, marital status and educational attainment¹⁸. These figures show that of the 16.3 million workers in California in 2006, approximately 6.5 million (40%) were not receiving any paid sick leave from their employers. The table in general shows that workers of lower socio-economic status were less likely to be employed in jobs providing paid sick leave.

Hispanic workers appear to be particularly prone to working in jobs not providing paid sick leave. Table 5 shows that only 44% of Hispanic workers in California received paid sick leave in 2006, one of the lowest percentages overall for these demographic categories. Of the estimated 6.4 million workers in California who were not receiving paid sick leave, more than 3 million (nearly half) were Hispanic. Even though Hispanic workers received paid sick leave in far fewer numbers, Table 5 shows there was surprisingly little variation in paid sick leave received by White, African American and Asian workers. Only Hispanic workers received significantly less.

Table 5 also shows that female workers received paid sick leave in slightly higher percentages than male workers, and that workers under 25 years of age were much less likely to receive paid sick leave than older workers. In terms of marital status, married

¹⁸ To obtain these estimates, I used ACS micro level data to estimate the total number of California workers within each demographic categories and multiplied this total by the reconciled percentage estimates from the NCS and the MEPS summary statistics. For example, the ACS micro level estimate for the number of male workers in California in 2006 was 8,985,223. I multiplied this figure by 58.6% (the NCS/MEPS reconciled percentage of male workers receiving paid sick leave in the Pacific region in 2006) to arrive at my estimate that 5,268,807 male workers in California received paid sick leave in 2006 and the remaining 3,716,416 male workers did not, as shown in the second row of figures in Table 5. All other estimates in this and subsequent tables in this section were obtained using the same technique.

workers were more likely to receive paid sick leave than workers who were divorced or had never married.

Of the findings from Table 5 discussed so far, the fact that Hispanic workers receive paid sick leave in significantly lower numbers provides the strongest clue that access to paid sick leave through employment may be somewhat unequally distributed. The final category shown in Table 5 for educational attainment provides further evidence of stratified inequality. The table shows that high school dropouts and those with only a high school diploma receive paid sick leave in substantially lower percentages than those who have had some college, a bachelor's degree or a post-graduate degree. In fact, the figures indicate that the higher the level of educational attainment, the higher the percentage of workers receiving paid sick leave. Since educational attainment is highly correlated with other markers of socioeconomic status, this provides strong evidence of unequal access to jobs offering paid sick leave as an employment benefit.

Table 6
 Estimated Percent of California Workers
 Receiving Paid Sick Leave by Level of Hourly Earnings, 2006

	Estimated Percent Receiving Paid Sick Leave
Earnings below and above \$15 per hour	
\$15.00 or below per hour	44.7%
\$15.01 or above per hour	71.0%
Earnings range	
\$7.25 or below per hour	16.4%
\$7.26 to \$20.00 per hour	58.4%
\$20.01 to \$30.00 per hour	80.6%
\$30.01 to \$40.00 per hour	84.0%
\$40.01 to \$50.00 per hour	88.3%
\$50.01 or above per hour	81.2%

Source: Labor force data from author's calculations using 2006 American Community Survey data. Data on incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

Another very important marker of socioeconomic status is the level of wage income, or earnings made by a worker. Table 6 shows that workers with higher hourly earnings receive paid sick leave in higher proportions than workers earning less¹⁹. Again, the figures show that the higher a worker's hourly earnings, the more likely it will be that they receive paid sick leave from their employer. There is a pronounced jump in the percentage with paid sick leave between those earning less than \$20 per hour and those earning more than \$20 per hour earnings. Fewer than 60% of workers earning between \$7.25 and \$20 per hour receive sick leave benefits, whereas more than 60% of

¹⁹ For those on earning salaries, I imputed hourly earnings by dividing annual labor earnings by number of hours worked during the year.

those earning more than \$20 per hour do. This finding provides further evidence of inequality in the distribution of paid sick leave among California workers.

Further evidence of inequality is found in Table 7 which shows variation in the percent of workers receiving paid sick leave according to industrial sector. We can see that employees in service producing establishments are more likely to receive paid sick than employees in goods producing establishments. Almost sixty percent of workers for private sector employers that produce services receive paid sick leave, and nearly ninety percent of public sector workers receive it. Employees in the natural resource sector (forestry workers for the most part) receive paid sick leave at the lowest rate, while workers in the information producing industrial sector receive paid vacation at the highest rate, followed closely by workers in financial activities. Generally, we can see that industries employing more highly paid, highly educated workers are more likely to offer paid sick leave. For example, workers in leisure and hospitality which includes hotels and restaurants have the lowest rate of paid sick leave. Manufacturing, however, is one exception to this trend, as workers there receive paid sick leave at near the overall California average of 60%.

Table 7
 Estimated Percent of California Workers
 Receiving Paid Sick Leave by Industrial Sector, 2006

	Estimated Percent Receiving Paid Sick Leave
Goods versus service producers	
Goods Producers Private Sector	46.7%
Service Producers Private Sector	58.3%
Service Producers Public Sector	87.8%
Industry private sector	
Natural Resources	29.5%
Mining	53.7%
Construction	31.3%
Manufacturing	61.5%
Wholesale and Retail Trade	52.3%
Transportation and Utilities	68.8%
Information	75.8%
Financial Activities	74.8%
Professional & Business Services	64.5%
Education, Health and Social Services	73.0%
Leisure & Hospitality	21.9%
Other Services	44.9%

Source: Labor force data from California Employment Development Department – Labor Market Information Division. Data on incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

From an occupational standpoint, we see much the same pattern of inequality in the distribution of paid sick leave among California workers. Just as we saw in Table 4 for the U.S. labor force as a whole, Table 8 shows that for California workers, those in more highly paid occupations that require more education like managerial and professional positions receive relatively higher rates of paid sick leave. Office and administrative support workers received paid sick leave in slightly higher percentages than the entire California workforce as a whole. Workers in all other occupations, mostly

in jobs requiring relatively less education, received paid sick leave is lower proportions than the 60% average proportion for the entire California workforce.

Table 8
Estimated Percent of California Workers
Receiving Paid Sick Leave by Occupation, 2006

	Estimated Percent Receiving Paid Sick Leave
Management, Business and Financial Operations	84.5%
Professional and Related Occupations	77.3%
Service Occupations	39.2%
Sales & Related Occupations	47.9%
Office and Administrative Support	66.6%
Farming, Forestry & Fishery Occupations	21.2%
Construction, Extraction & Maintenance	41.6%
Production, Transportation & Material Moving	48.6%

Source: Labor force data from California Employment Development Department – Labor Market Information Division. Data on incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

Advocates for laws mandating paid sick leave contend that the current voluntary system used in the U.S. to determine whether or not workers receive paid sick leave from their employers results in an unequal distribution of paid sick leave benefits. Evidence presented in this section suggests that there certainly is inequality, but that it is more along socioeconomic lines rather than racial or gender lines. Women and men receive paid sick leave in approximately the same proportion, as do Whites, African Americans, and Asian Americans. Hispanics were the only ethnic group with a significantly lower than average percentage of paid sick leave. Educational attainment, wage and salary income, industry and occupation appear to be much better markers of who gets paid sick leave and who does not. The evidence is unmistakable: those in lowly paid jobs who

have less education are much less likely to receive paid sick leave than those in highly paid jobs with more education. This same pattern repeats itself for occupation and industry. Those in goods producing industries and in lower skilled occupations receive paid sick leave in smaller percentages than those in service producing industries and higher skilled occupations.

Opponents of mandatory paid sick leave argue that when employers are free to flexibly offer employment benefits and workers are free to accept them, there will be natural tradeoffs between wages and benefits. This argument suggests that higher benefit levels are likely to be offset by lower wages. While appears to be no evidence to substantiate this claim, we must be careful in drawing conclusions on this point from the findings we have examined in this section. While higher wage jobs do appear to go along with jobs providing paid sick leave, in contradiction of the arguments made by opponents of mandatory paid sick leave, other explanations could make this finding consistent with the opponent's arguments. It could be, for instance, that higher wage workers are simply more willing to tradeoff some of their higher wages in exchange for higher benefits, and that in the absence of paid sick leave, their wages would have been even higher.

Likewise, it could be argued that lower-wage workers are less willing to sacrifice already low wages for paid sick leave benefits, and that if they were to receive paid sick leave, their wages would be even lower. Unfortunately, there is no way, without being able to examine individual micro level data from the NCS and MEPS, to sort this issue and interpretation out. What we do know is that there is no strong evidence from the NCS/MEPS summary statistics in support of the opponents position.

DIRECT COSTS TO EMPLOYERS OF PROVIDING PAID SICK LEAVE BENEFITS

What does it actually cost employers to provide workers with paid sick leave?

The answer to this question has important implications for the policy debate on whether or not paid sick leave should be mandated. If the cost of paid sick leave is relatively small, for instance, such a mandate would not represent a particularly high burden for employers to surmount. Therefore, any wage tradeoff that would take place in response to the mandate would be relatively modest. If, on the other hand, paid sick leave is relatively costly, workers may need to sacrifice more in wages and employers more in profits to accommodate the mandate.

NCS figures indicate that the cost of paid sick leave constitutes a relatively small fraction of total compensation compared to other employment benefits. Table 9 presents compensation cost estimates for the average U.S. worker broken down by specific compensation type, as reported by the U.S. Bureau of Labor Statistics from NCS data²⁰. As can be seen, paid sick leave costs employers an average of just \$ 0.30 per hour, or just 1.1% of the total hourly compensation of \$28.11. Compared to other leave benefits, paid sick leave costs employers substantially less than either paid vacation or paid holidays. Compared to other kinds of employee benefits, paid leave *as a whole* constitutes about \$1.95 per hour on average, slightly less than insurance benefits (\$2.34), and legally required benefits like employer contributions to Social Security, Medicare, unemployment insurance, etc. (\$2.23). Paid leave as a whole costs nearly a dollar more

²⁰ Bureau of Labor Statistics, Employer Costs For Employee Compensation – December 2007, Table 1. (2007).

than employer contributions to defined benefit and defined contribution retirement plans (\$1.24).

Table 9
Employer Compensation Costs per Hour
And as a Percent of Total Compensation, 2007

	Dollar Cost	Percent of Total Cost
Total compensation	\$28.11	100.0%
Wages and salaries	\$19.62	69.8%
Legally required benefits	\$2.23	7.9%
Paid Leave	\$1.96	7.0%
Sick leave	\$0.30	1.1%
Vacation	\$0.95	3.4%
Holidays	\$0.63	2.2%
Other	\$0.09	0.3%
Supplemental Pay	\$0.72	2.6%
Insurance	\$2.34	8.3%
Health	\$2.21	7.8%
Short-term disability	\$0.05	0.2%
Long-term disability	\$0.04	0.1%
Life	\$0.05	0.2%
Retirement benefits	\$1.24	4.4%

Source: Bureau of Labor Statistics, Employer Costs for Employee Compensation December 2007, Table 1. (2007).

What do we know about the frequency of use of paid sick leave that would help explain why the cost of it to employers amounts to just 1% of total compensation?

According to an analysis of 2004 National Health Interview Survey micro-level data by

the advocacy group Institute for Woman's Policy Research²¹, workers with paid sick leave miss an average of around 3.9 days per year for their own health needs, and an average of 5.5 days per year for all family needs including their own health needs, the health needs of close family members and doctor visits. About half of all workers whose employers provide them with paid sick leave actually do not miss any days of work at all for illness or injury during the year, whereas fewer than 10% miss more than 9 days. Therefore, since the typical worker who receives paid sick leave benefits only misses a few days of work each year, it should perhaps not be so surprising that the compensation cost to employers for this benefit is relatively low.

Table 9 shows that for the average wage earner earning nearly \$20 per hour, the hourly cost of the sick leave they use in a year is just \$0.30. What would the cost be for a relatively low-wage worker not currently receiving paid sick leave. Table 10 provides my estimates for the annual payroll costs per hour per employee using a methodology similar to that used by the Bureau of Labor Statistics. I assume that each worker takes an average of 5.5 days of sick leave per year (44 hours), and that administrative costs to the employer (including legally required benefits) amount to 13.37% of wage costs. Table 10 indicates that for workers with wages below \$11.00 per hour, the per-hour cost of paid sick leave would be less than \$0.30 per hour.

²¹ Lovell (2006).

Table 10
 Estimated Annual Payroll Costs per Hour
 For Representative Hourly Wage Levels

Hourly Wage	Annual Payroll Cost Per Employee	Annual Payroll Cost Per Hour
\$8.00	\$400.22	\$0.22
\$9.00	\$450.25	\$0.24
\$10.00	\$500.28	\$0.27
\$11.00	\$550.31	\$0.30
\$12.00	\$600.34	\$0.32

Source: Author's calculations.

If California were to mandate paid sick leave, what would the direct cost to employers be for providing paid sick leave to employees who currently do not have it? Table 11 presents my estimates of these costs for a group of hypothetical employers in four different industrial categories with low percentages of workers currently receiving paid sick leave: construction contractors, retail clothing, restaurants, and hotels. As was shown in Table 8, managerial, professional and clerical workers in the state were all much more likely than other workers to be offered paid sick leave, so I assumed in these estimates that these workers in the representative businesses would have already been covered by paid sick leave, but that all other workers would not have been. In estimating the net new payroll and administrative cost to these hypothetical employers of providing previously uncovered workers with paid sick leave, I used American Community Survey data to estimate the percentage occupational distribution in each industrial category as well as the average hourly earnings for workers in each occupational/industrial pairing. I assumed each worker would use 5.5 days of paid sick leave per year, and that employers would incur administrative costs (including legally required benefits) equal to 13.37% of wage costs.

Table 11
 Estimated Direct Annual Cost to Employers
 For Providing Paid Sick Leave to Uncovered Employees

A. Representative Construction Contractor with 12 Employees

	Estimated Employees	Hourly Wage	Net New Payroll and Administrative Costs
Managers*	2.4	\$28.35	--
Professionals*	0.4	\$27.82	--
Clerical Workers*	0.7	\$17.65	--
Sales Workers	0.1	\$16.57	\$101.20
Craftsmen	5	\$18.21	\$4,557.57
Operatives	1	\$16.70	\$818.93
Service Workers	0	\$13.85	\$33.17
Laborers	2.4	\$15.38	\$1,814.13
Total Employees	12		
Total Uncovered Employees	8.5		\$7,325.00
Average Cost Per Uncovered Employee			\$861.76

B. Representative Retail Clothing Employer with 20 Employees:

	Estimated Employees	Hourly Wage	Net New Payroll and Administrative Costs
Managers*	6.1	\$19.26	--
Professionals*	0.9	\$27.08	--
Clerical Workers*	3.6	\$10.61	--
Sales Workers	8	\$12.25	\$4,871.47
Service Workers	0.4	\$10.36	\$214.01
Craftsmen	0.1	\$12.46	\$36.06
Operatives	0.7	\$12.46	\$433.95
Laborers	0.3	\$8.31	\$106.98
Total Employees	20		
Total Uncovered Employees	9.4		\$5,662.47
Average Cost Per Uncovered Employee			\$602.39

*Assumed to be previously covered.

Source: Author's calculations using data from 2006 American Community Survey. Data on incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

Table 11 (Continued)
 Estimated Direct Annual Cost to Employers
 For Providing Paid Sick Leave to Uncovered Employees

C. Representative Restaurant with 30 Employees

	Estimated Employees	Hourly Wage	Net New Payroll and Administrative Costs
Managers*	5.3	\$17.90	--
Professionals*	0.4	\$19.34	--
Clerical Workers*	3.5	\$11.43	--
Sales Workers	0.0	\$16.57	\$32.24
Service Workers	19.7	\$5.66	\$5,562.09
Craftsmen	0.2	\$13.90	\$135.24
Operatives	0.8	\$10.43	\$435.59
Laborers	0.1	\$15.62	\$56.12
Total Employees	30		
Total Uncovered Employees	20.8		\$6,221.28
Average Cost Per Uncovered Employee			\$299.10

D. Representative Hotel with 120 Employees

	Estimated Employees	Hourly Wage	Net New Payroll and Administrative Costs
Managers*	21.7	\$21.17	--
Professionals*	4.7	\$20.55	--
Clerical Workers*	23	\$12.55	--
Sales	0.3	\$18.27	\$262.54
Service Workers	62.4	\$12.51	\$38,920.05
Craftsmans	3.4	\$12.46	\$2,096.39
Operatives	3.5	\$12.46	\$2,200.83
Laborers	1.2	\$13.65	\$792.78
Total Employees	120		
Total Uncovered Employees	70.6		\$44,272.59
Average Cost Per Uncovered Employee			\$627.09

*Assumed to be previously covered.

Source: Author's calculations using data from 2006 American Community Survey. Data on incidence of paid sick leave from the 2006 National Compensation Survey and 2004 Medical Expenditures Panel Survey.

Table 11 shows that the annual cost to provide paid sick leave to currently uncovered employees would range from \$299.10 to \$861.76 per employee. The variation in these amounts depends on the various wage levels for each occupation and the proportional distribution of each occupation within each industry. Altogether, these figures suggest that the per-dollar costs to employers for providing paid sick leave to uncovered workers would be relatively modest.

INDIRECT BENEFITS TO EMPLOYERS OF PROVIDING PAID SICK LEAVE BENEFITS

Are there any important indirect advantages that employers might receive as a result of providing paid sick leave to their employees? If so, these may partially or fully offset the 1% of direct compensation cost to employers as estimated by the Bureau of Labor Statistics and cited in the previous section. Advocates of mandatory paid sick leave have identified three separate indirect sources that they believe employers may benefit from providing paid sick leave. Each of these benefits comes in the form of reducing some other cost employers bear when they do not provide paid sick leave.

First, advocates argue that providing paid sick leave to employees may act to reduce employee turnover by removing an incentive for workers to voluntarily leave a job without paid sick leave in order to take a job where it is provided. They also argue that providing paid sick leave may act to reduce involuntary job separations due to unauthorized work absences for to personal or family health needs. In one research study, Cooper and Monheit (1993) found that when employers provide paid sick leave to their employees, turnover is reduced by between 3.6% and 6.4% compared to employers who do not.

What may be true for individual employers with respect to labor turnover under the current voluntary system, however, is not likely to be true for all employers if paid sick leave were to be mandated, and I believe advocates go to far in assuming there will be major cost savings from this source. If all employers were mandated to provide paid sick leave, this would remove any incentive for workers to leave jobs that did not provide paid sick leave in search of jobs that did. All jobs would provide paid sick leave. Therefore, this purported cost saving to employers that is often cited by advocates of paid sick leave, stands on somewhat shaky ground when applied to employers a whole. Further, advocates have not been able to cite or conduct reliable empirical studies to show these cost savings would be real in a generalized environment where every employer offered this benefit.

The second indirect way source of indirect costs savings for employers who provide paid sick leave to their employees stands on somewhat stronger theoretical and empirical grounds. Advocates for mandatory paid sick leave argue that when workers do not receive paid sick leave, they have a strong incentive to go to work despite being sick because they cannot financially afford to stay home. This is especially true for relatively lower wage workers who, as we have seen, are the least likely to be employed in jobs offering no paid sick leave. This phenomenon is sometimes referred to as “presenteeism” as opposed to absenteeism. While on the job, there is strong empirical support for the belief that such workers are substantially less productive. Smith (1989) found “significant effects on performance efficiency” for workers with colds, flu and other minor illnesses. In another study, Nichol (2001) estimated that when employees go to work while sick with the flu, their productivity was impaired by an average of 50%. If these estimates are accurate, it suggests that sick workers are receiving full pay while

being only half as productive as they normally are. Such productivity loss can be substantial in dollar terms. A third study by Goetzel et al. (2004) estimated that of the ten most costly health conditions, the annual cost to employers for this type of lost productivity on the job ranges from \$1,567 to \$217 on an annual, per-employee basis.

The third source advocates for mandatory paid sick leave have identified for indirectly reducing the costs of employers offering paid sick leave has to do with the spread of contagious illnesses when workers stay home on sick leave instead of going in to work while sick. When co-workers become ill due to being exposed to fellow co-workers who have come to work while sick with colds, flu or other minor contagious illnesses, the productivity loss identified above for individual workers is compounded. Advocates cite studies in the epidemiology literature, Longini et al. (1988) and Islam, O'Shaughnessy and Smith (1996), that taken together suggest that a worker on the job while contagious with the flu is likely to infect 18% of their fellow co-workers.

How large are these potential indirect cost savings to employers and how likely are they to partially or fully offset the direct cost of providing paid sick leave to employees? Two recent studies, each conducted by Vicky Lovell, Ph.D. for the advocacy group Institute for Women's Policy Research, attempted to estimate the costs and benefits of two proposed mandatory sick leave laws. In the first, Lovell (2005), she analyzed the costs and benefits of the proposed federal Healthy Families Act. In the second, Lovell (2006), she analyzed the costs and benefits of San Francisco's Paid Sick Leave Ordinance before it was actually enacted. Neither of these studies was published in a peer reviewed journal, but having been a peer reviewer for several dozen academic journal articles over the past twenty years, I can attest to the generally high quality of empirical methods used by Dr. Lovell in both these studies. When compared to many

other empirical reports issued by advocacy groups for other policy positions, I found Dr. Lovell's reports to be particularly well documented and easy to follow. She employed conventional methodology, and while I did not necessarily agree with all of her assumptions, I found most of them to be credible. All in all, both reports reflected solid, evidence-based social science research.

There were two places where I took exception to the methods and assumptions used by Dr. Lovell in these two studies. In each study, she attempted to estimate the total direct cost under the mandate to employers not currently providing paid sick leave to their employees. She also attempted to estimate the indirect cost savings these employers would experience from providing paid sick leave from each of the three sources identified above. The first problem I saw was in the method used for calculating the compensation costs to employers for employees staying home on home sick. Dr. Lovell used the average hourly wages for workers who are paid an hourly wage. Since the more highly paid workers are generally paid salary instead of hourly wages, a more appropriate procedure would have been to calculate the implicit hourly wage of these salaried workers, combine these estimates with the hourly wage of hourly workers and determine an average hourly rate of pay for all workers instead of just that for the lower paid hourly workers. By only basing compensation costs on the labor costs of hourly workers, Dr. Lovell's estimates of the direct cost to employers of a paid sick leave mandate were lower than they would have been if she had based them on the labor costs for all workers.

The second place where I took issue with Dr. Lovell's approach was with her estimate of the labor turnover cost savings employers would experience if paid sick leave were mandated. As I argued above, I believe the labor turnover cost savings would be negligible on theoretical grounds, since the mandate would remove any incentive for

workers to switch jobs. I would argue there would be no significant reduction in labor turnover. Nonetheless, Dr. Lovell estimated the cost savings from this effect in both studies, and it was substantial, given her assumptions.

In her study of the Healthy Families Act, Dr. Lovell estimated that the cost savings to employers from reduced labor turnover alone was 127.7% of the estimated total direct costs of providing paid sick leave. In other words, she estimated that the cost reduction due to reducing labor turnover would more than offset the direct cost of paying workers who stayed home sick. I do not consider this to be a credible estimate. Employers may well be in the dark about the precise level of savings likely to occur from providing paid sick leave to their employees, but savings of this order of magnitude would seem hard to miss, and if they really were to be this large, I would expect more employers would want to take advantage of the opportunity to realize them.

In her Healthy Families Act report, Dr. Lovell also estimated the cost savings from the other two sources of indirect benefits to employers, and I found these estimates to be much more convincing. She estimated that the productivity cost savings from no longer paying workers full wages for less than full productivity would amount to 7.8% of the estimated total direct costs of providing paid sick leave. She also estimated that the cost savings to employers from reducing the spread of flu at work would amount to another 3.6% of the estimated total direct costs of providing paid sick leave to employees.

In her very similar analysis of San Francisco's Paid Sick Leave Ordinance, Dr. Lovell found indirect cost savings of the same order of magnitude from these three sources of benefits. She estimated that the benefit to employers due to reduced labor turnover would be 125% of the direct costs, that the benefit due to not paying workers

full wages for less than full productivity would be 7.2% of direct costs and that the benefit due to reducing the spread of flu at work would be 4% of direct costs.

How credible are these estimates? If these indirect benefits of providing paid sick leave are real, why haven't more employers realized it and taken advantage of them? There are reasons to believe it may be hard for employers to recognize the potential of these sorts of benefits in everyday workplace settings. Given what we know about the difficulty employers face in monitoring productivity in all kinds of employment settings, it may be very difficult indeed for employers to recognize the productivity loss associated with paying sick workers full wages for less than full productivity. This likely holds true for the spread of contagious sickness among co-workers, as employers probably wouldn't be aware of the extent to which illness is contagious in the workplace and the financial incentive they would have to reduce the spread of illness by providing paid sick leave.

POLICY IMPLICATIONS

What would be the economic consequences if California were to enact legislation overturning its current voluntary system that allows employers to decide on their own whether or not to offer paid sick leave to their employees? The main lesson I believe we should draw from this analysis is that the economic effects of mandating paid sick leave are likely to be relatively small.

What would be the main advantages of mandating paid sick leave? Evidence provided in this study suggests that the benefits would mostly come in the form of reducing the degree of inequality among the state's workforce. The study has documented fairly conclusively that the current voluntary system results in an unequal

distribution of paid sick leave benefits among California workers along mostly socioeconomic lines. Lower-wage workers and those with less educational attainment are much less likely to receive paid sick leave benefits than those with higher wages and more education. Workers in industries and occupations that require relatively lower skills and pay lower wages have been shown to receive paid sick leave in far smaller proportions. Mandating paid sick leave would level the playing field, providing every worker in the state, rich and poor, white collar and blue collar, more educated and less educated, with the same basic employment benefit.

What would be the main cost of mandating paid sick leave? The direct annual cost to employers of complying with such a mandate was estimated in this report to range from \$299 to \$862 per-employee for a group of representative employers not currently offering paid sick leave. Because these costs are relatively low, whatever labor market adjustments that would need to occur to absorb them, in the form of lower wages, other benefits or employer profits, are also likely to be relatively small. Further, there is some reason to believe a small portion of these higher direct costs, as much as 10%, may be offset by indirect hidden benefits in the form of reduced costs elsewhere.

Opponents of mandatory paid sick leave make a number of valid points when addressing the consequences of mandating paid sick leave. Mandating paid sick leave would certainly remove some degree of flexibility and freedom that our current system now allows for determining the terms of employment. It is certainly true that the direct cost of providing paid sick leave would need to somehow be absorbed in the form of reduced wages and other benefits for workers, and reduced profits for employers. Though these costs are likely to be small, they would nonetheless be borne unequally. Small businesses on thin profit margins may well be less able to absorb even a small

reduction in profit than would larger businesses. Also, some workers already paid a low wage could well see slower growth in their wages over time as a result. Overall, however, given the relatively small cost estimates provided here, these consequences of the increased costs are also likely to be relatively small.

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DATA APPENDIX

Federal and State agencies such as the U.S. Bureau of Labor Statistics and California's Employment Development Department collect and disseminate a wide variety of wage and employment data for workers. Unfortunately, considerably less official information is collected about employment benefits than is collected for wages, salaries and employment levels. This is surprising, considering that employment benefits of all kinds account for nearly one-third of total compensation.

The most important single source for information on employment benefits in general and paid sick leave in particular is the National Compensation Survey (NCS) conducted by the U.S. Bureau of Labor Statistics, beginning in the 1970's. This annual establishment-based survey contacts over 18,000 establishments across the U.S. each year to collect information on the employment benefits businesses offer to their employees, including paid sick leave.

While the NCS is the single most comprehensive source for employment benefit information in general, there are some drawbacks to using it to profile characteristics of California workers receiving paid sick leave. Some of these drawbacks are a result of the fact that the Bureau of Labor Statistics does not make the individual micro-level data taken from the survey available for public use. This means that researchers are not able to use individual observations from the survey to calculate the number of workers receiving paid sick leave, but instead must rely on summary statistics released by the Bureau of Labor Statistics from its own internal analysis of data from the survey. In many cases, these summary statistics do not match up with specific research questions of interest in particular studies such as this one. For example, while the focus here is on the

number of California workers who receive paid sick leave, the Bureau's summary statistics are only provided at the regional and not state-specific level.

Another drawback to using NCS information is that because it is derived from an establishment-based survey as opposed to a household-based survey, and so it is not possible to extract information about the individual demographic and socio-economic characteristics of workers receiving sick leave benefits. Because establishments are surveyed, the NCS is able to provide comprehensive and detailed information on the characteristics of employers (size of establishment, industry, etc.) but not on the characteristics of workers themselves (gender, race, educational attainment, etc.). A third drawback to using NCS information for paid sick leave is that because of changes in the way the survey was administered there have been data gaps in recent years. In particular, the Bureau of Labor Statistics provides no summary statistics on paid sick leave for years 1998, 2000, 2001, 2002 and 2003, so we are unable to gain a continuous picture for how of paid sick leave offerings changed from the late 1990's to the early 2000's.

Although no demographic information is available from the NCS about the individual characteristics of workers who receive paid sick leave or other employment benefits, researchers have been able to work around this problem to some degree by making use of another data source on the incidence of paid sick leave benefits. The Medical Expenditures Panel Survey (MEPS) conducted by the U.S. Department of Health and Human Services is a household-based survey that collects extensive information on a wide variety of topics related to medical expenditures from both individual households and health care providers. In the survey, household members are asked how much paid sick leave is provided to them by their employers, and researchers have been able to use this information to estimate individual demographic characteristics of workers receiving

or not receiving paid sick leave as an employment benefit. Unlike NCS data, however, paid sick leave information from the MEPS is not regularly forthcoming on a year-to-year basis. In fact, the latest available MEPS sick leave information dates from 2004. Nonetheless, with some adjustments, this MEPS data can be combined with NCS data to provide an estimated profile of the characteristics of workers receiving paid sick leave as an employment benefit.