Economic Impact Statement

Office of Legislative Oversight

Bill 10-22 Personnel and Human Resources – Paid Parental Leave

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 10-22 would have a slight positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By offering paid parental leave to County employees and supplementing the State's Family and Medical Leave Insurance (FAMLI) program, the change in County personnel policy likely would affect certain resident employees in two ways: First, it may increase County payouts to resident employees and their beneficiaries who otherwise would not have accumulated as much leave at the time of separation from County service or death. Second, it may prevent wage disruptions for employees who otherwise would take unpaid leave, leave their job, and/or reduce their labor force participation in order to care for a newborn, newly adopted child, or newly placed foster child. As a result, these employees likely would experience an increase in net household income. However, OLO expects the total increase in net household income for all resident employees who experience these effects to be too small in magnitude to generate meaningful economic impacts on other residents and County-based businesses.

BACKGROUND

Bill Description

The goal of Bill 10-22 would be to offer paid parental leave to County employees and supplement the State's Family and Medical Leave Insurance (FAMLI) program.[1] The Bill would attempt to achieve this goal by creating a new category of paid parental leave that would consist of 240 paid hours (6 weeks) during a 12-month period and not count against the employee's personal, annual, or sick leave. As noted in the memorandum enclosed in the Bill's Introduction Staff Report, "Once the State's new FAMLI program becomes operational in 2025, County employees would continue to receive 240 hours of fully paid parental leave; the employee's leave would be paid in part by the State FAMLI program."[2] Thus, the County would completely cover the 240 hours of additional leave until 2025. The County would then supplement the State FAMLI program to ensure employees receive 240 hours of fully paid parental leave.

Primary Economic Stakeholders

The primary economic stakeholders in the County of Bill 10-22 would be **the households of County employees who reside in the County <u>and</u>, at some point, take paid parental leave.** (Note the Bill's potential economic impacts on non-resident

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[1] Bill 10-22; and Wellons to County Council, Memorandum.

[2] Ibid.

County employees fall outside the purview of this Economic Impact Statements.) Of the 10,379 County employees, 5,654 (54 percent) reside in the County.[3] Residents employed with the County make up approximately 1 percent of the County's total labor force—551,326 as of April 2022.[4] Due to data limitations, OLO does not know the average number of resident County employees who would take paid parental leave on an annual basis.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess Bill 10-22's impacts on County-based private organizations and residents in terms of the Council's priority economic indicators.[5] In this statement, OLO focuses on the Bill's potential impacts on the primary economic stakeholders identified above with respect to:

- household income; and
- workforce-related indicators, namely labor force participation, job retention, and wages.

Excluded from this analysis are the Bill's potential economic opportunity costs from forgone revenue expenditure if establishing the paid parental leave were to increase County costs.

To assess Bill 10-22's impacts on the Council's priority indicators, OLO performs a qualitative assessment based on two sources of information:

1. County Leave Policy: This analysis draws on the County's policy concerning annual leave to evaluate the effects of offering employees 240 hours of paid parental leave on the County's lump-sum payments to employees at separation from County service or death. The annual leave policy is stated in the following section of the Code of Montgomery County Regulations (COMCOR):

> COMCOR, Sec. 33.07.01.16 Annual Leave.

2. Systematic Review: This analysis also draws on findings from a systematic review of the primary research on the economic impacts of paid parental leave policies. A systematic review provides a critical appraisal of the primary research on a specific topic using explicit and reproducible procedures and standards.[6] As a valuable tool for evidenced-based policy analysis,[7] a systematic review can indicate the extent to which there is high-quality evidence demonstrating a policy's effect on outcomes.

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[3] Data on Montgomery County Employees, Office of Human Resources, Montgomery County, May 2022.
[4] U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, Montgomery County, MD.
[5] Montgomery County Code, Sec. 2-81B.
[6] Guides.temple.edu, Systematic Reviews & Other Review Types; Peričić and Tanveer, "Why systematic reviews matter."
[7] Haddaway and Pullin, "The Policy Role of Systematic Reviews."

Using the Google Scholar database,[8] OLO identified the following systematic review of the peer-reviewed literature on paid parental leave policies:

> Nandi, A., Jahagirdar, D. Dimitris, M.C., Labrecque, J.A., Strumpf, E.C., Kaufman, J.S., Vincent, I., Atabay, E, Harper, S., Earle, A. and Heymann, S.J. "The Impact of Parental and Medical Leave Policies on Socioeconomic and Health Outcomes in OECD Countries: A Systematic Review of the Empirical Literature." *The Milbank Quarterly*, 96 (2018): 434-471.

OLO selected the 2018 systematic review for two reasons. First, it is the most recent systematic review on paid parental leave policies. The authors reviewed a total of 87 peer-reviewed papers on the socioeconomic and health outcomes of state- or country-level parental leave policies published between 1995 and 2016. Thirty-six of the reviewed papers examined economic outcomes, focusing on the effects of parental leave reform in European countries, Japan, Canada, and the United States.

Second, OLO is confident in the systematic review's conclusions regarding the economic impacts of paid parental leave policies. Of the 36 papers reviewed, 33 used quasi-experimental methods with clear strategies to identify the effect of these policies on economic indicators.[9] Quasi-experimental methods are distinguished from standard regression approaches by their ability to better identify the causal effects of a policy intervention from outcomes correlated with, but unrelated to, the intervention due to unmeasured confounding and other threats to causal inference. Thus, the authors' conclusions from the systematic review are based on high-quality empirical studies.

In subsequent sections of this statement, the 2018 systematic review is used to identify the empirically well-established economic impacts of paid parental leave policies. On this basis, OLO infers that the County's parental leave policy likely would have similar impacts on resident employees.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 10-22 are the following:

- total number of eligible resident employees per year;
- average length of paid leave per eligible resident employee;
- job retention and labor force participation rates of eligible resident employees;
- average accrued annual payout to County employees at time of separation or death; and
- total annual household income of eligible resident employees.

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[8] The article was identified using the following search term: *"paid parental leave" and "systematic review"*

[9] The quasi-experimental methods used are difference-in-difference, regression discontinuity, and pre-post and interrupted time series design. Three of the papers used only model-based approaches.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Residents

OLO anticipates that enacting Bill 10-22 would have targeted, positive impacts on certain households of resident County employees who would take paid parental leave in terms of household income and several workforce-related indicators. Establishing a paid parental leave program likely would impact these indicators in two different ways.

1. Increase Payout at Separation or Death: COMCOR describes the County's policy regarding the payout of accumulated annual leave when employees separate from County service or die. As stated in the regulations,

> (a) The County must pay an employee who separates from County service a lump sum payment for the total accrued annual leave as of the date of separation, less any indebtedness to the County government. The payment must be made at the employee's current rate of pay.
>
> (b) If an employee dies, the County must pay the employee's designated beneficiary a lump-sum payment for the total accrued annual leave as of the date of death, less any debt owed to the County government.[10]

By establishing 240 hours of paid parental leave that would not count against the employee's personal, annual, or sick leave, certain County employees would use less annual (and other) leave to care for a newborn, newly adopted child, or newly placed foster child than they would in the absence of enacting Bill 10-22. Some of these employees in turn would accrue more annual leave at the time of separation or death and they or their beneficiaries would receive larger payouts. Holding all else equal, larger payouts would increase net household income.

2. Prevent Wage Disruptions: In addition to increasing payouts at the time of separation or death, establishing a paid parental leave likely would prevent wage disruptions for certain employees. The 2018 systematic review described above analyzed 36 peer-reviewed papers on the economic impacts of state- or country-level paid and unpaid parental leave policies. Based on these papers, the authors conclude there is consistent evidence that paid parental policies increase leave-taking and longer durations of leave. They also conclude that these policies have the potential to increase the following economic indicators for women[11]:

- labor force participation,
- employment,
- job retention, and

[10] COMCOR adds, "If the employee does not name a beneficiary for annual leave, the County must pay: (1) the beneficiary named under the employee's retirement plan; or (2) the employee's estate, if the employee did not name a beneficiary under the retirement plan." Sec. 33.07.01.16 Annual Leave.

[11] The evidence for the impacts on men is less clear.

- long-term wages and income.

Furthermore, in contrast to paid parental policies, unpaid leave has little, or in some cases even negative, effects on women's labor force participation, employment, and wages.

Based on these findings, OLO anticipates that some resident County employees who use paid parental leave would be less likely to take unpaid leave, leave their job with the County, and reduce their participation in the labor force in the short- and mid-term than they otherwise would in the absence of enacting Bill 10-22. Given the potential for unpaid leave and employment gaps to reduce net wages, the Bill's impacts on leave use, job retention, and labor force participation likely would increase net household income for certain County employees.

While Bill 10-22 likely would increase net income for households of some County employees who take advantage of the paid parental leave program, OLO does not expect the average total increase in household income on annual basis to stimulate enough household spending to significantly impact other residents with respect to the Council's priority indicators. First, as previously mentioned, the 5,654 County employees who reside in the County make up approximately 1 percent of the County's total labor force. The average number of resident County employees in which the paid parental leave program would increase payout at the time of separation or death and/or prevent wage disruptions related to parental demands, though unknown, likely would be much less than 1 percent of the total labor force. Second, a portion of any income gain would go towards discretionary spending with little to no direct impact on local economic conditions (i.e., student loan debt service).

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 10-22 would have an insignificant impact on private organizations in the County in terms of the Council's priority economic indicators due to the Bill's insufficient impact on household spending.

DISCUSSION ITEMS

While there is a large body of high-quality research on the socioeconomic (and health) impacts of paid parental leave policies, few studies have examined whether subgroups are more likely to benefit from leave policies. The few subgroup analyses performed have found wage, occupational class, and other inequities in taking advantage of paid parental leave.[12] Councilmembers may want to consider whether the Department responsible for implementing the program should periodically assess uptake among all eligible employees.

[12] Elser, et al, "Inequities in paid parental leave across industry and occupational class"; and Goodman, et al, "Among Low-Income Women In San Francisco, Low Awareness Of Paid Parental Leave Benefits Inhibits Take-Up."

WORKS CITED

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.