Paid Family Leave in Montana

by Barbara Wagner, Chief Economist

In January 2015, the Montana Department of Labor & Industry conducted a public opinion survey about a potential state-subsidized paid family leave program. Funded by a U.S. Department of Labor grant, the survey asked business owners about their provision of paid leave to new mothers, fathers, and any individuals needing to take extended leave to care for a sick child, parent, or family member.

The intent of the survey was to identify potential opportunities to increase labor force participation rates in light of Montana's worker shortage. Providing paid leave to new parents helps maintain a greater connection between the parent and the employer, increasing the likelihood that the worker will return to work after their parental leave. Research has suggested that providing for greater paid leave would also help address the gender pay gap, primarily because new mothers with paid leave are more likely to return to the workplace rather than drop out of the labor force.[1]

The survey asked employers to differentiate between paid time off (such as vacation, sick, or other paid time off that is available to all employees) and paid parental leave, which is specifically used by mothers and fathers after the birth or adoption of a new child. The survey also asked about family leave, which is often used by new parents after the birth or adoption of a child, but can also be used by any worker who has to take extended time off work to care for an ailing family member. Family leave could be used if a spouse or a child were in an accident or became ill, or if an elderly family member required care.

SURVEY RESULTS

Roughly 45% of businesses, covering 68% of employment, responded that they provided some type of leave to their employees that could be used after the birth or adoption of a child. However, the leave was most often provided as unpaid leave or as paid personal leave (vacation, sick, or general PTO), without any additional paid leave to accommodate the extended time needed to care for a new child or an ailing family member. New parents often require more time off than the two to three weeks of personal

SURVEY METHODOLOGY

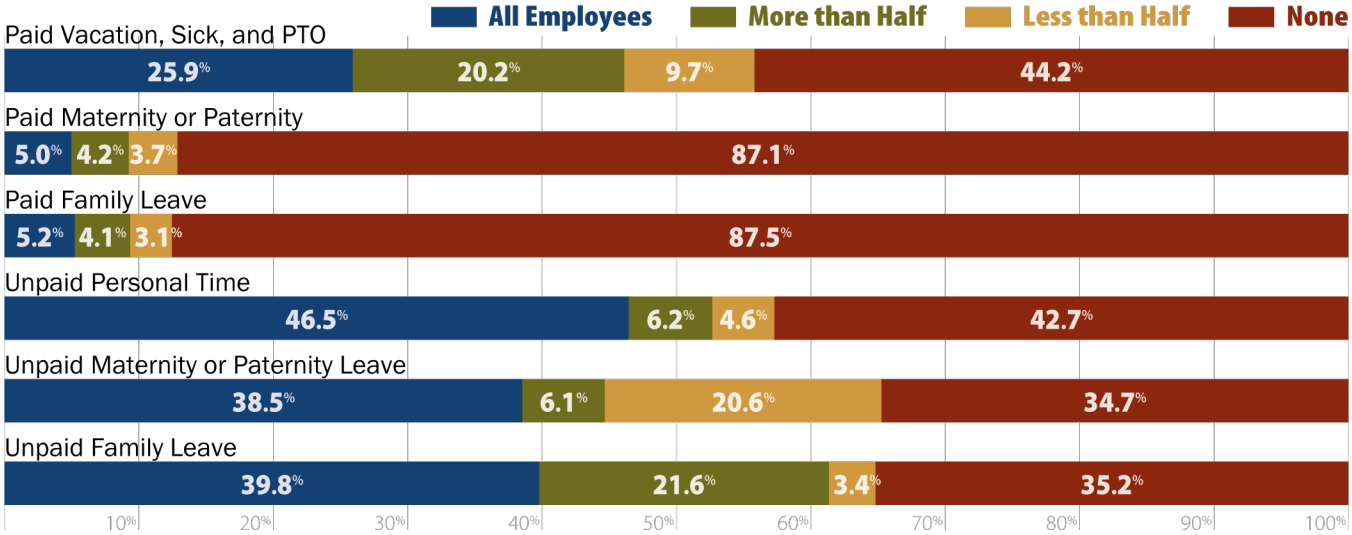
The businesses surveyed included Montana private and local government employers that report employment to Montana's unemployment insurance program. State and federal government employers were excluded because of the public availability of benefit information. Employers of less than 1.5 average employment within the year also were excluded because many businesses with employment below this level are business owners paying themselves as employees, and are more appropriately considered self-employed instead of employers. The population was stratified by both business size and industry so that survey results could determine if there are there differences in paid leave provision by industry or among businesses of different sizes.

The survey was conducted via mail in January 2015, with non-respondents receiving a follow-up mail survey in February. The final number of mailed surveys equaled 2,215. Responses could be returned via mail or by responding online. Data collection closed at the end of March with 949 valid completions and a response rate of 42.8%. The lowest response rates occurred in the construction, trade and transportation, and leisure activities sectors. Response rates were higher for larger businesses than smaller businesses.

The industries and size classes with lower response rates are known to have lower provision of vacation and sick leave according to national statistics, which raised concerns about nonresponse bias.[2] Nonresponse bias occurred because businesses without paid maternity/paternity/family leave were less likely to respond, thus biasing the results of the survey. To address this bias (and to reduce variance generally), the survey was post-stratified using known employment totals. The totals for the post-stratification include 24,755 employers covering 403,914 employees.

By ownership of business, 64% of respondents were from the for-profit private sector, with about 16% from the non-profit sector and 20% representing a local government, school, or library. These percentages are not significantly different from the Montana economy, suggesting little response bias by ownership sector. There were two tribally-owned businesses that responded to the survey, but there was insufficient response for cross-tabulations for this category.

Figure 1 Employer Provision of Paid Leave by Share of Employees Eligible



leave typically provided by employers. Parents can often combine their paid personal leave with unpaid leave, but research suggests that only paid leave is associated with the positive impacts of retaining mothers in the workforce. Families quickly adjust to the lower income level resulting from paid leave, and many choose to adopt the convenience of having a caretaker at home rather than pay for the expense of childcare.

Figure 1 illustrates what types of leave are provided by Montana businesses. Although over 45% of businesses provide some kind of leave to families, paid personal leave is much more common than paid parental leave or paid family leave. Roughly 26% of employers provide paid personal leave (vacation, sick, or other paid time off) to all of their employees. Another 30% of employers provide paid personal leave to some, but not all of their employees. Many employers only provide paid personal leave to full-time employees, with fewer part-time and temporary workers receiving such benefits.

Paid leave specifically for new parents or for the extended care of family members was rare, with roughly 5% of employers providing family leave or parental leave to all employees. Most businesses (roughly 87%) did not provide such leave to any of their employees. Among employers offering paid leave for new parents, the benefits are fairly generous. Most businesses offering parental leave reported that wages are not prorated and that workers receive a paycheck roughly equal to their normal working wage. Only 12% of the employers who offered parental leave prorated the amount, with the prorated wage rate generally falling between 50% and 66% of usual earnings.

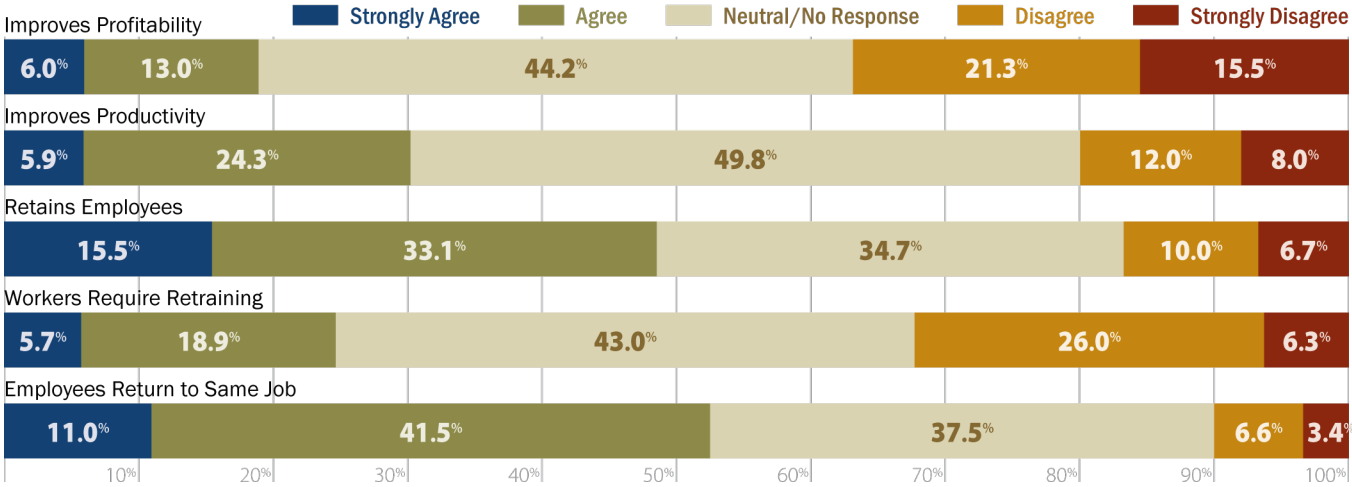
A larger share of businesses offer unpaid leave to workers, with roughly 38% to 40% of employers offering unpaid family or parental leave to all of their employees. Around 35% of businesses do not offer unpaid family leave to any of their employees, with a roughly equal percentage for unpaid parental leave.

BUSINESS PERSPECTIVES ON PAID LEAVE

The survey also asked businesses for their perspectives on paid parental leave. **Figure 2** illustrates these opinions. Employers agreed that employees return to the same position after extended paid leave, with less than 10% of employers saying that significant retraining costs were required for returning employees. Employers also generally agreed that paid parental leave helps retain employees, and more employers agree than disagree that paid parental leave improves productivity.

All of these responses suggest that paid leave can have positive or neutral impacts on a business's bottom line. However, businesses tended to disagree that paid leave improves the profitability of the business. In other words, businesses feel that the costs of providing paid parental leave in terms of wages outweigh the benefits of improved productivity and worker retention. Of course, the costs of parental leave are paid upfront and all at once, while the benefits of improved productivity and employee retention

Figure 2 Business Perspectives on Paid Parental Leave



are experienced over time, making the direct comparison on business profitability difficult. Unless a business has undertaken research on the costs of worker turnover and decreased morale, it may be difficult to evaluate the impact of paid leave on business profitability. There are few economic studies that quantify the costs of worker turnover. Such studies are difficult because recruitment and worker training vary significantly depending on the position and the worker being trained. However, as Montana's labor market tightens, it will become more costly and difficult for businesses to recruit new workers, which may change a business's perspective on the value of paid parental leave.

Consistent with the view that paid leave does not improve business profitability, employers who did not provide paid leave said that leave was not provided because it was too expensive. **Figure 3** illustrates the reasons parental leave was not offered by businesses that did not offer leave. The top reason was that leave was "too expensive."

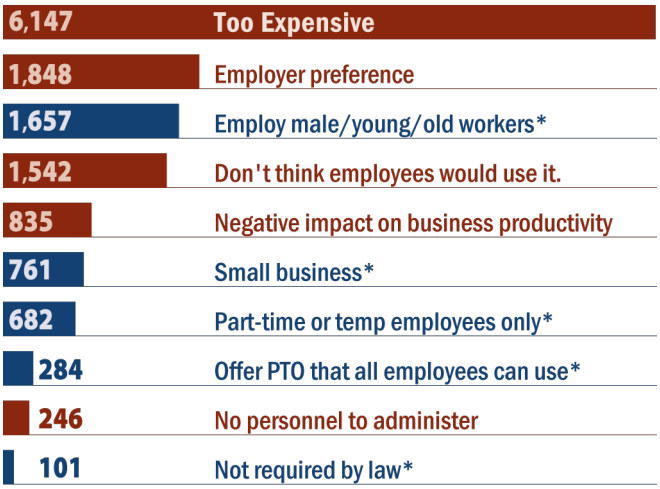
There were also a large number of write-in responses to this question on the survey. Because taking the time to write a comment is more effort than checking a box, write-in comments are assumed to indicate fairly strong feelings about the response. The top write-in response category included comments about how the business only employed male, young, or old workers who would not use parental leave. This category is quite similar to the provided category of "Don't think employees would use it," but because a sizeable number of businesses opted to write in this response instead of selecting the provided category, it was included as a separate sentiment.

The response that the business only employed male, young, and old workers is interesting because the question specifically referenced paternity leave for fathers and family leave (which could be used by any worker with an ailing or elderly family member). The responses appear to reflect a sentiment that only women of child-bearing age would be interested in parental or family leave, even though males and workers of other age groups also have family responsibilities. Further, when asked about who should be eligible for paid parental or family leave, over 56% of respondents said that the program should be available for all workers needing extended family leave, not just mothers or fathers.

The write-in responses also commonly mentioned a desire to provide leave to all employees, not just those in the specific situations that would require family or parental leave. This sentiment was captured in the "Offer PTO that all employees can use" category, but was also echoed in responses to other questions in the survey. Although the desire to be fair for all workers is admirable, new parents and workers caring for ailing family members often require more leave than the typical two to three weeks of paid personal leave. The intensity of need after the birth or adoption of a child or a family member's illness is not met with typical paid time off provision, which is what leads to workers removing themselves from the labor force to care for their family rather than retaining ties to their workplace.

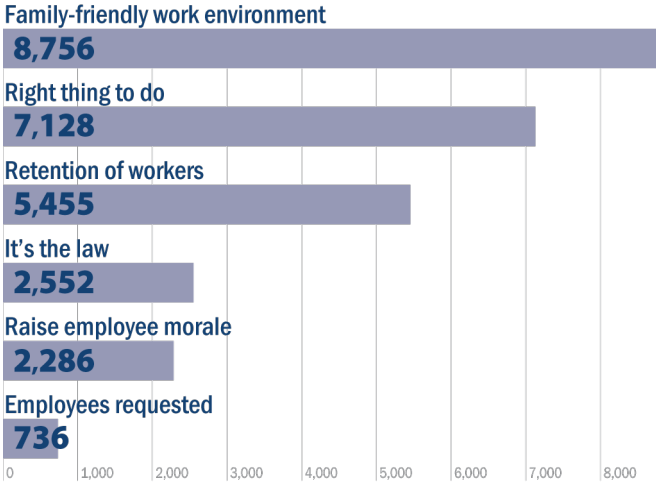
Although businesses felt providing paid family leave was expensive, many felt like it was the right thing to do. If they offered maternity/paternity or family leave, businesses

Figure 3 Reasons Parental Leave Not Offered



*Write-in categories

Figure 4 Reasons to Offer Parental Leave



were asked for their top two reasons why the leave was offered. The largest categories were "a family-friendly work environment is important" and "it is the right thing to do" (see **Figure 4**). Neither of these top responses mention any sort of business needs, but appeal to the morality and social responsibility of the business. However, given that few businesses provide paid parental or family leave to their employees, it seems the expense is still too great to provide leave for most businesses.

CONCLUSION

In summary, few Montana businesses provide paid family or parental leave, although paid personal leave and unpaid leave is available to many more workers. Businesses believe that providing leave is the right thing to do, improves productivity, retains workers, and does not require large retraining costs. However, they do not provide leave because they feel like it is too expensive, and the costs outweigh the benefits resulting in negative business profitability. Further research to quantify the benefits of lower turnover, improved morale, and higher productivity from leave may help businesses make more informed choices about benefit provision.

Businesses also expressed concerns about providing benefits to all employees, rather than just those who have or adopt children. While the desire to be fair to all employees is both understandable and admirable, it does reflect the common misperception that family leave is only needed by working parents. This misperception may change as the population ages and more workers are challenged by caring for aging parents or loved ones. The sentiment to be fair to all workers also does not acknowledge the intensity of need when having or adopting a new child. New parents often need more time after birth than the two to three weeks typically provided for paid personal need.

As Montana's labor markets continue to tighten because of the worker shortage, both businesses and policy makers are looking for ways to recruit more workers into the labor force. Businesses without adequate worker retention practices will also face more time-intensive and costly searches to replace lost workers, increasing the costs of worker turnover. Paid family and parental leave is one of many tools to address these problems, both helping businesses to retain workers and helping to keep more workers in the workforce when they are struggling to care for children or ailing family members. At this time, it is not a tool that is commonly used by Montana businesses, but time will tell whether paid parental leave becomes more common in the future as the aging of the population both reduces the size of the workforce and increases the demands on workers to care for aging family members.

[1] Gault, B., Hartmann, H., Hegewisch, A., Milli, J., & Reichlin, L. March 2014. Paid Parental Leave in the United States: What the Data Tell Us About Access, Usage, and Economic and Health Benefits. Institute for Women's Policy Research, p.8 – 16.

[2] National Compensation Survey, Bureau of Labor Statistics.