



CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE CONTROLLER

B+F /  
C: BOS-11 /  
LOB

Ben Rosenfield  
Controller

Todd Rydstrom  
Deputy Controller

March 22, 2016

The Honorable Board of Supervisors  
City and County of San Francisco  
Room 244, City Hall

Angela Calvillo  
Clerk of the Board of Supervisors  
Room 244, City Hall

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO  
2016 MAR 22 PM 2:31  
BY [Signature]

**Re: Office of Economic Analysis Impact Report for File Number 160065**

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file number 160065, "Paid Family Leave for Bonding with a New Child: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan  
Chief Economist

cc Linda Wong, Committee Clerk, Budget and Finance Subcommittee



# Paid Family Leave for Bonding with a New Child: Economic Impact Report

Office of Economic Analysis

Item # 160065

March 22<sup>nd</sup>, 2016

## Introduction

---

- The proposed legislation would require San Francisco employers with 20 or more employees to provide partial wage replacement to their employees who take leave under the California Paid Family Leave (PFL) program in order to bond with a new child.
- PFL is an extension of the State Disability Insurance (SDI) program. PFL provides for partial wage replacement of up to 55% their salary for up to six weeks of leave. Leave may be taken to care for a family member.
- SDI is entirely funded through a tax on employees. Virtually every private sector employee, and many government and non-profit employees, contribute to SDI. There is no employer contribution to the state program.
- This proposed legislation would require employers to compensate an employee for up to 45% of their remaining wages, when he or she files a PFL claim for bonding with a new child. Other legitimate PFL claims, such as caring for a parent, would qualify for the 55% draw from the state pool but not require any additional compensation from the employer.

## Who Would Benefit from the Proposed Legislation?

---

- The proposed legislation would only apply to *covered employees*, defined as someone who meets all of the following conditions:
  1. eligible for a PFL claim for bonding with a new child.
  2. started work with a *covered employer* at least 90 days prior to the start of the leave period.
  3. performs at least eight hours of work per week for the employer within the city.
  4. works at least 40% of their total weekly hours for that covered employer within the city.
- A *covered employer* is any employer of a covered employee, except government entities or employers with fewer than 20 employees anywhere in the world.
- In other words, the vast majority of full- and part-time San Francisco employees of private businesses and non-profits with over 20 employees would be eligible for the enhanced compensation under the proposed legislation. Covered employees must work, but need not live, in San Francisco.

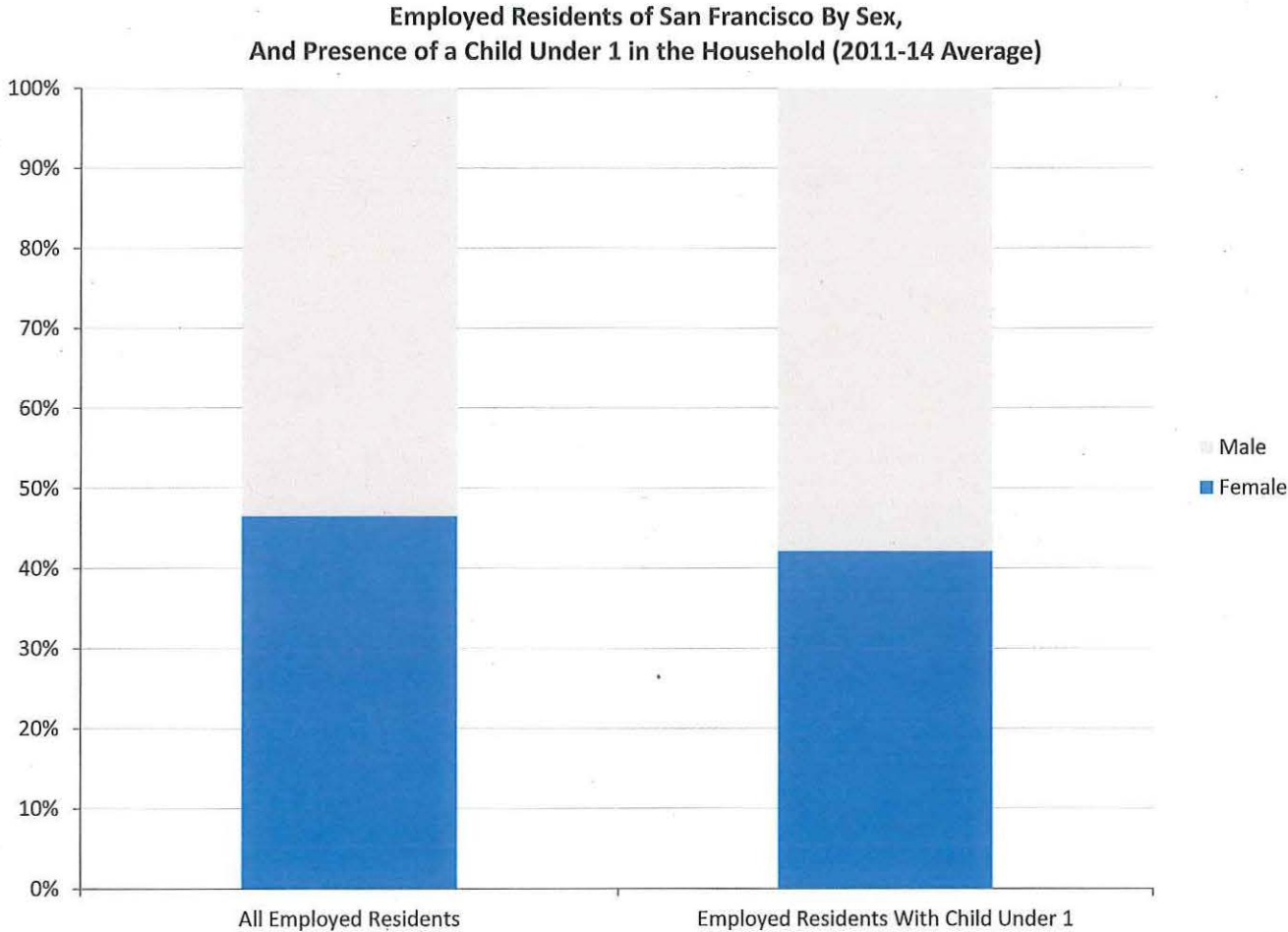
## Paid Family Leave Claims for Bonding with a New Child in San Francisco

---

Year	Bonding Claims by SF Residents	Average Duration in Weeks (All Claims)	Average Weekly Benefits (All Claims)
2011	4,336	5.48	\$720.09
2012	4,560	5.49	\$739.66
2013	4,615	5.53	\$761.86
2014	5,044	5.43	\$765.69
Average	4,639	5.49	\$743.39

Source: Legislative and Intergovernmental Affairs Office, California Employment Development Department (EDD)

# 47% of Employed San Francisco Residents are Female, but Only 42% of Employed Residents With a New Child are Female



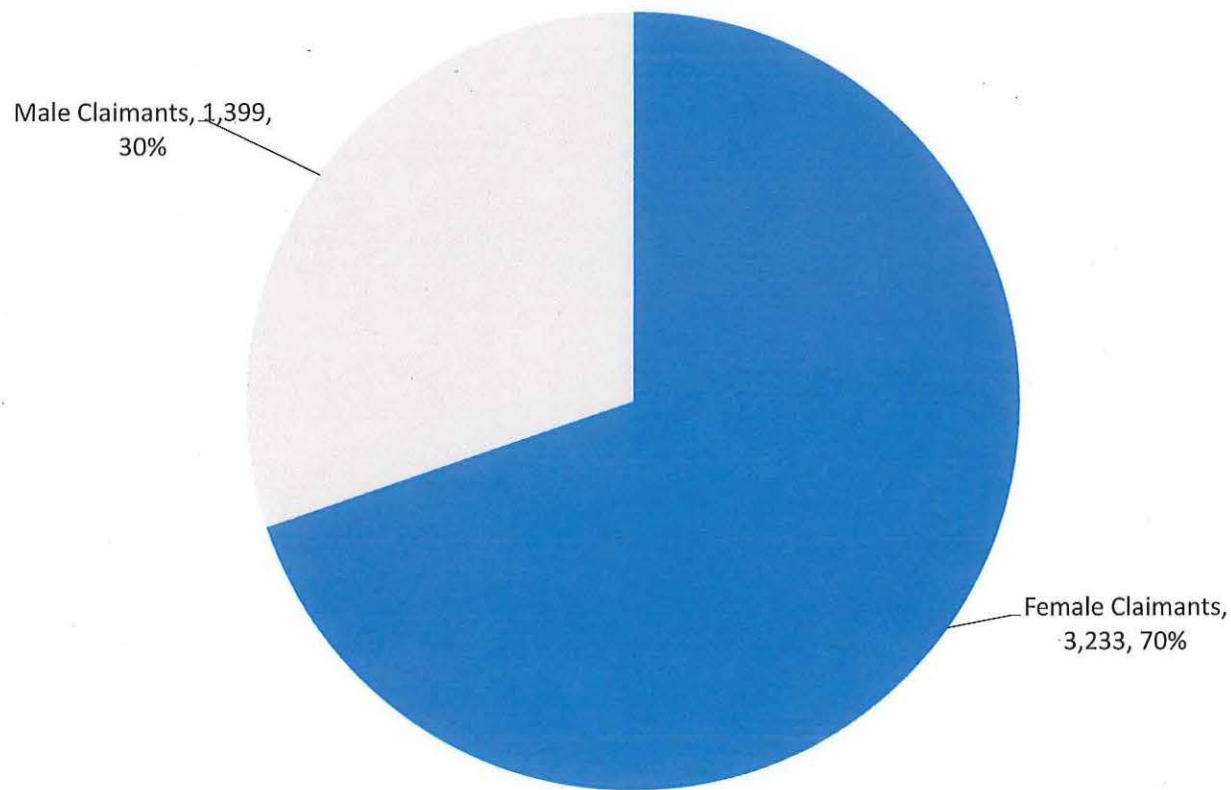
The Census Bureau's American Community Survey asks respondents their sex, employment status and the age of their youngest child, if any.

The data indicates that while women make up 47% of employed residents in San Francisco, they make up slightly less, 42%, of employed residents that have a child under 1 year of age. This may result from some women dropping out of the labor force after the arrival of a new child.

# However, 70% of PFL Bonding Claims in San Francisco Are Made By Women

---

Paid Family Leave Claims for Bonding by San Francisco Residents, By Sex  
(2011-14 Average)

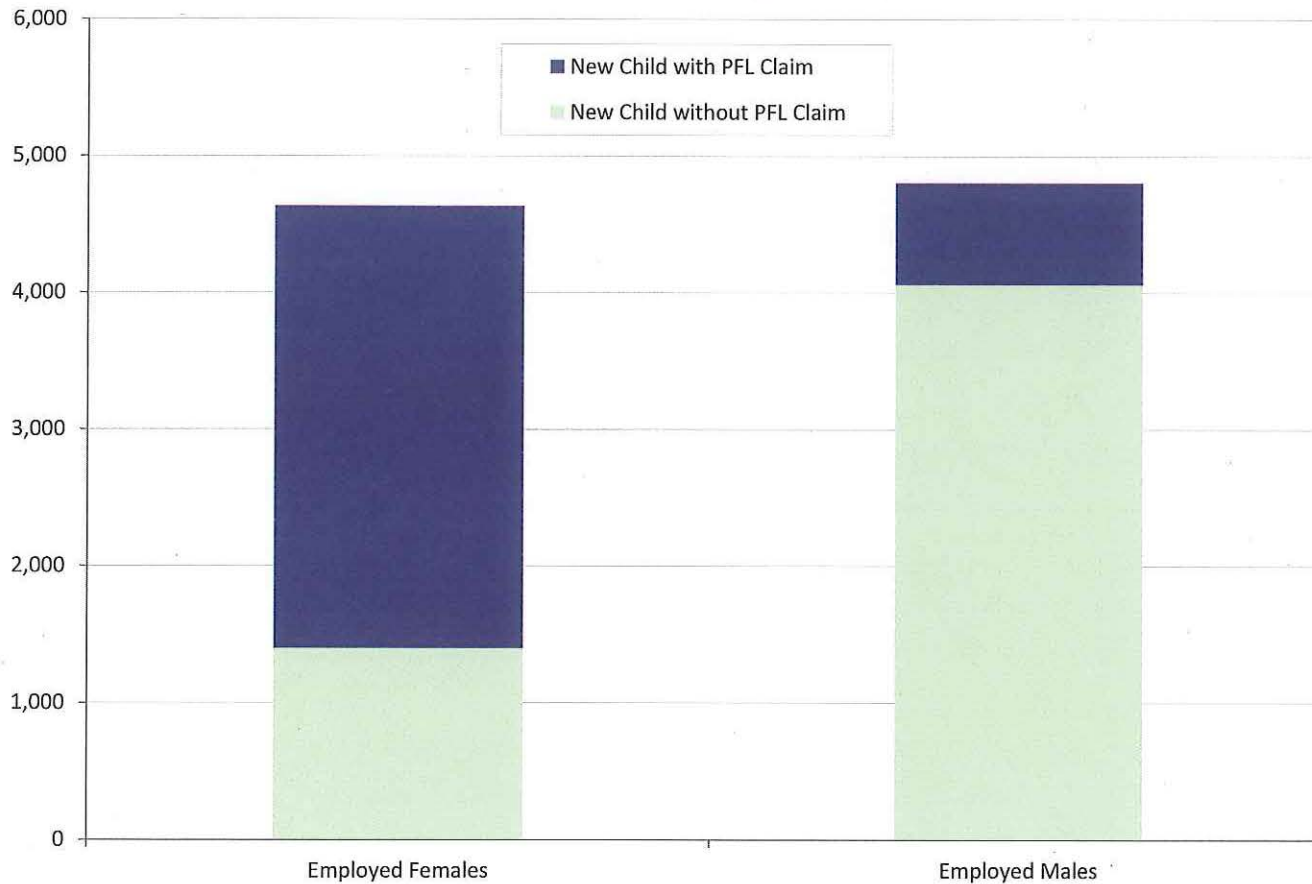


The State Employment Development Department, which manages the PFL program, has provided us with data on the number and size of PFL claims, specifically for bonding with a new child, for males and females who live in San Francisco.

This suggests that women in San Francisco, who are already more likely than men to drop out of the labor force after having a child, are also more likely to take a paid leave of absence.

# Estimates of the Uptake of PFL Suggest Females with a New Child Are Far More Likely to Use PFL than Males with a New Child

PFL Usage by Employed Males and Females With New Children in San Francisco (Average 2011-14)



By comparing the PFL claims for bonding with a new child, with the number of employed residents that have new children, we can estimate the utilization or "uptake" of PFL by both males and females in the city.

The data suggests that while approximately 80% of San Francisco females with a new child claim PFL for bonding with that child, only 26% of eligible males in the city do so.

Research has suggested that this gender difference in early child care contributes to both inequities in future earnings of men and women. It also establishes patterns of child attachment and domestic roles within the household.



## Economic Impact Factors

---

- The proposed legislation is projected to affect the City's economy in three primary ways:
  1. By increasing the compensation associated with a PFL claim, it would increase the household spending of every covered employee who makes a claim. Additionally, by increasing the economic incentive to make a claim, it would likely increase the number of claims by covered employees. To the extent that covered employees live in San Francisco, most of their additional spending would be at local retailers and service providers, creating positive multiplier effects in the city's economy. Additionally, if the proposed legislation increases the number of PFL claims made by San Francisco residents, which seems likely given the greater financial incentive, it will increase the local economy's draw down from the State SDI pool.
  2. It would increase the compensation costs of covered employers, who currently pay nothing for PFL claims, but would pay 45% of the cost of each claim under the proposed legislation. This would effectively increase the cost of hiring, slow job creation and replacement, and create negative multiplier effects in the local economy.
  3. Research from Scandinavian countries which have had longer experience with PFL suggests that increased parental, and especially paternal, bonding leads to better educational outcomes for children, and higher long-term earnings for women, who are less likely to interrupt their careers to care for children. However, given California's shorter experience with PFL, we lack the data to quantify this benefit.
- The remainder of the report focuses on quantifying the net economic impact associated with the first two factors discussed.

## Economic Impact Assessment: Projected Increase in Average Claim

---

- As stated on the previous page, the increased household income and spending that would be caused by the proposed legislation is partly a product of the higher compensation that would be paid for each claim (from 55% to 100% of employee wages), and partly a product of a higher number of claims. While the second issue cannot be estimated with any confidence, and is discussed in more detail on the next page, the first issue is relatively easy to estimate based on data provided by EDD.
- Over the 2011-15 period, the average PFL claim for new child bonding by a San Francisco resident involved 5.5 weeks of leave, and paid the employee \$743 per week. As this represents approximately 55% of wages, raising the compensation to 100% of wages would pay the employee \$1,351 per week. Employees would therefore gain \$608 per week as a result of the legislation, or \$3,344 additional for a claim of average length.

## Economic Impact Assessment: Potential Increase in PFL Program Uptake

---

- California's PFL program, which went into effect in 2004, has always offered the same 55% of weekly wages to claimant as a benefit. No other local government in the State has done what San Francisco is proposing to do in raising the benefit to above 55% of wages.
- For these reasons, while we can estimate the program uptake given the current benefit, we lack the data to meaningfully estimate how many more new San Francisco parents would make a PFL claim if the benefit was increased. Instead, we illustrate the economic impacts of a range of potential changes in program utilization.
- For example, based on the average number of claims over the 2011-14 period, if the number of claims does not rise, household incomes will rise by \$9 million annually simply as a result of increasing the benefit from 55% to 100% of wages.
- If uptake increases to the point that the claims by men become half as frequent (40% of men with new children) as female claims are now (80% of women with new children), then household incomes in San Francisco would rise by \$12 million annually.
- Finally, if uptake increases to the point that claims by men become as frequent as claims by women, then household incomes would rise by \$21 million annually.
- As an absolute maximum, if claims by both men and women rose to 100%, household incomes would rise by \$26.5 million.

## Economic Impact Assessment: Higher Compensation Costs for Covered Employers

---

- The proposed legislation requires covered employers to pay the additional 45% of wages to PFL claimants who work in the city. Additionally, because only 55% of covered employees live within San Francisco, local businesses will also be providing PFL compensation to non-resident employees, whose spending provides negligible economic benefit to the city.
- If there is no increase in program uptake, all of the additional household income flowing to resident and non-resident claimants would come from covered employers, at an estimated cost of \$16 million annually.
- On the other hand, if the higher PFL benefits lead to more people using the program, as can be expected, then both the State SDI pool and local employers will contribute to the higher household income, with the State paying 55% of the cost of the new claims.
- Following the illustrative examples on the previous page, if male program uptake rose to 40%, the cost to covered employers would be approximately \$19 million, with an additional \$3 million coming to claimants from the State.
- If male program uptake rose to 80%, the cost to covered employers would be \$26 million annually, with an additional \$13 million coming to claimants from the State.
- The maximum possible uptake, 100% for both males and females, would increase compensation costs by \$32.3 million annually, with an additional \$20M from the State.

## Summary of Potential Scenarios: Benefits and Costs

Scenario	Increase in income to San Francisco residents	Increase in State payments to San Francisco residents	Increase in compensation costs to San Francisco employers, for residents & non-residents
100% wage replacement but no change in program uptake	\$8.8M	\$0	\$15.8M
100% replacement; male uptake rises to 40%; no change in female uptake	\$11.9M	\$3.3M	\$18.5M
100% replacement; male uptake rises to 80%; no change in female uptake	\$20.7M	\$12.5M	\$26.0M
100% replacement; both male and female uptake rise to 100%	\$26.5M	\$20.2M	\$32.3M

## Potential Net Economic Impacts

---

- The Office of Economic Analysis uses the REMI model, an econometric model of the city's economy, to estimate the net economic impact of policy changes.
- In each scenario modeled, the net economic impacts were negative:
  - If there are no changes in program uptake, the proposed legislation would reduce the city's GDP by \$42 million and 250 jobs.
  - If uptake increases to the point that men are half as likely to claim PFL as women, the economy's GDP would be reduced by \$47 million and 290 jobs.
  - If uptake increases to the point that men are as likely to claim PFL as women, GDP would be \$65 million smaller, and the city would have 390 fewer jobs.
  - The maximum potential uptake of 100% for both men and women would reduce the city's GDP by \$79 million and employment by 480 jobs.
  - Each of these impact is small in the context of the city's \$140 billion economy, which has added an average of 17,000 new jobs a year since 2004.
- There appear to be two primary reasons for negative impact.
  1. The flow of funds out of the local economy, in the form of compensation to non-resident employees by local businesses is greater, in every scenario, than the flow of funds to into the local economy in the form of higher State payments to resident PFL claimants.
  2. Even on a dollar-per-dollar basis, the negative multiplier effects of raising compensation costs for local businesses outweighs the positive multiplier effects of raising household income and consumer spending.

## Conclusions and Recommendations

---

- Although this analysis does not consider the potential long-term benefits of expanding PFL, and does not reach a quantitative estimate of the likely economic impact, based on a range of likely scenarios we project the net impact on the city's economy will be negative.
- As was the case with other City labor legislation, such as the recent minimum wage increase, the projected negative impact would likely be small in the context of the overall city's economy and its long-term growth trend.
- The legislation enhances the notification requirements that covered employers must make to their employees regarding paid family leave. Some research has suggested that PFL claims are relatively low, across the state, because notification requirements are weak and many workers are unaware of their PFL benefits.
- The City may be able to minimize the negative economic impact by establishing a more gradual move up to 100% wage replacement, and monitoring the increase in program uptake as the size of the benefit increases.
- If PFL claims increase substantially with less than a 100% wage replacement, then the benefit of additional State dollars flowing into the city could outweigh the (reduced) cost to local businesses, and the net economic impact might be made positive.

## Staff Contacts

---

Ted Egan, Ph.D., Chief Economist

[ted.egan@sfgov.org](mailto:ted.egan@sfgov.org)

(415) 554-5268

Asim Khan, Ph.D., Principal Economist

[asim.khan@sfgov.org](mailto:asim.khan@sfgov.org)

(415) 554-5369