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The Economic Impact of H.R. 2460 and Mandatory Paid Sick Leave on U.S. Small Businesses

This report analyzes the potential economic impact of H.R. 2460 (111th Congress), also known as the Healthy Families Act, on U.S. employers, workers, and economy. H.R. 2460 would establish a minimum time-off standard for paid sick leave by requiring employers with 15 or more employees to provide workers with up to 56 hours of paid leave during each 12-month period. Paid sick time could be used to tend to an injury or medical condition, care for family members, or, in the event an employee or family member is a victim of domestic violence, to seek medical attention, assist the victim, seek relocation, or take legal action. The mandate covers both full-time and part-time employees.

To analyze the economic impact of H.R. 2460, the NFIB Business Size Impact Module (BSIM) of the REMI economic model was employed to forecast the consequences this legislation would have on U.S. businesses by firm-size category. BSIM consists of a collection of 10 regional economic models designed to measure the effects of macroeconomic changes on firms. The module takes as input new employer costs and spending generated by macroeconomic change(s) of interest and uses them to forecast macro variable outputs like real GDP and employment levels, by firm size. These forecast variables can then be compared to a baseline forecast representing the path of the economy in the absence of any macroeconomic changes. No other general model of which we are aware has the capability to measure the effects of new government policies by firm size.

A paid sick leave mandate would impose new costs on U.S. employers that would lead to reduced profitability, lost sales and production, and lost jobs. BSIM inputs in this study consist of new employer costs generated by the mandate described in H.R. 2460 and new spending on healthcare-related and other goods and services due to an increase in paid sick leave taken by employees. Implementation of H.R. 2460 is assumed to occur in 2011. Economic forecasts were generated for years 2011 through 2015. The results suggest that if H.R. 2460 passes, over 570,000 U.S. jobs could be lost and U.S. real GDP could decrease by over \$93 billion by 2015. Small firms would bear a major share of job and output losses.

Description of New Employer Costs Generated by the Healthy Families Act

H.R. 2460 would impose three major costs on employers: compensation costs associated with paying more workers taking paid time off, lost production due to more workers taking leave, and paperwork and recordkeeping costs incurred by complying with a new employer mandate. These three costs, and our attempts to model them, are discussed in detail below.

A. Employee Compensation

A major cost to employers from this legislation is a “compensation cost” in the form of compensation (both wages and benefits) transferred from employers to employees during their additional paid time off. H.R. 2460 would require employers at firms with 15 or more employees to allow workers to accrue up to 56 hours of earned paid sick time at a given time. Paid sick time could be used to tend to an injury or medical condition, care for family members, or, in the event an employee or family member is a victim of domestic violence, to seek medical attention, assist the victim, seek relocation, or take legal action. The mandate covers both full-time and part-time employees. Workers would be entitled to begin earning paid sick time at the commencement of their employment and could use it starting on their 60th day of employment.

The size of employer compensation costs will depend on the amount of additional paid time off that employees take, either for sick leave or to deal with the impact of domestic violence in their lives. This study assumes that employees with newfound access to paid sick leave will use 60.6 percent of their newly available paid sick leave time.¹ Workers already with access to paid sick leave are assumed to not change the amount of paid leave they take after H.R. 2460 is implemented. The paid sick leave these

¹ This assumption is based on existing data on take-up rates for the Family and Medical Leave Act (FMLA). A 2000 Department of Labor survey on the Family and Medical Leave Act reported that nearly 20 percent of FMLA-covered and -eligible employees who took leave over an 18-month period took their longest leave under FMLA. The percentage of covered and eligible employees who took *any* leave under FMLA is possibly much higher. The FMLA is an unpaid leave policy, and a similar paid leave policy can be expected to have higher take-up rates.

According to the report, 54 percent of leave-takers (whether or not they were covered or eligible) who took leave for reasons covered under FMLA reported their longest leave as being between zero and 10 days. The remaining 46 percent reported their longest leave as lasting 11 or more days. The median length of leave taken was 10 days. The report also provides figures on the length of leave-takers’ second longest leave: 43 percent reported one to three days, 26 percent said four to 5 days, 14 percent said six to 10 days, and the remainder said 11 or more days. Seventy-five percent of these leave-takers took leave just once during the 18 month period, 15 percent took leave twice, and 10 percent took leave three or more times during the period.

Cross tabulations for the lengths of leave-takers’ longest and other leaves are unavailable. Nor are statistics available on the total or average number of leaves taken by leave-takers. However, given the above figures, it is reasonable to assume that the total annual taken per leave-taker averages at least 56 hours. We assume that 60 percent of workers newly eligible for the paid sick leave mandate described in the Healthy Families Act would take sick leave in annual amounts of at least 56 hours. The additional 0.6 percent of paid time off assumed to be taken is due to the incidence of domestic violence among workers, which is discussed elsewhere.

For more details on the referenced statistics, see the report “Balancing the Needs of Families and Employers: Family and Medical Leave Surveys 2000” submitted by Westat and funded by the Department of Labor under Contract MS-23F-8144H, available at <http://www.dol.gov/asp/archive/reports/fmla/toc.htm>.

workers have access to is also assumed to be sufficiently generous that it satisfies the requirements of H.R. 2460.

Compensation costs were estimated using data and assumptions regarding [1] the number of U.S. employees newly eligible for paid sick leave under H.R. 2460, [2] the quantity of additional paid sick leave taken by employees if H.R. 2460 passes, and [3] the compensation of these employees. To estimate [1], industry-level estimates of the percentage of workers without paid sick leave were multiplied by the number of workers in those industries. This calculation produces an estimate of the number of employees with no paid sick days—the set of employees newly eligible for paid sick leave if H.R. 2460 were implemented. The percent estimates of workers ineligible for paid sick leave are provided the Institute for Women’s Policy Research and the Department of Agriculture. Industry-level data on the number of private sector employees were obtained from the Census Bureau. For illustrative purposes, estimates for the number of California employees without paid sick days are presented below in **Table 1**, by industry (right-most column).

Table 1: Estimated Number of CA Employees without Paid Sick Days, by Industry

NAICS Industry Code	Private Sector Industry	Percent of Workers without Paid Sick Days Nationally ²	Number of CA Employees, by Industry ³	Estimated Number of CA Employees without Paid Sick Days, by Industry
11	Agriculture	67	23,820	15,959
21	Mining	52	21,285	10,962
22	Utilities	15	59,815	8,751
23	Construction	75	958,436	715,760
31-33	Manufacturing	48	1,449,769	695,454
42	Wholesale Trade	29	825,742	238,722
44-45	Retail Trade	55	1,700,802	934,761
48-49	Transportation/Warehousing	44	453,208	199,819
51	Information	26	525,756	134,120
52	Finance and Insurance	18	733,723	130,970
53	Real Estate	33	327,928	109,594
54	Prof., Scientific, & Tech. Services	31	1,224,939	381,568
55	Management	23	292,497	67,947
56	Admin., Support, Waste Man., & Rem. Services	69	1,153,010	796,499
61	Education	32	317,408	100,618
62	Healthcare and Social Assist.	29	1,556,748	449,589

² Except for agriculture, industry-level paid sick days coverage rates are taken from Vicky Lovell’s *Taking Care: Adequacy and Equity of Paid Leave*, published by the Institute for Women’s Policy Research. Lovell’s estimates are derived using data from the BLS March 2006 National Compensation Survey, adjusted for eligibility using data from the BLS Nov. 2005 through Oct. 2006 Job Openings and Labor Turnover Surveys (JOLTS). The coverage rate for agricultural workers is taken directly from the BLS March 2009 National Compensation Survey and is not adjusted using JOLTS data.

³ Estimates of the number of CA employees by industry are taken from the Census Bureau’s 2006 Statistics of U.S. Businesses dataset.

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71	Arts, Entertain., & Recreation	65	302,529	196,372
72	Accom. and Food Services	78	1,321,880	1,031,727
81	Other Services	51	581,428	294,668
--	All Industries	48	13,830,723	6,513,861

BSIM has a unique capacity among forecasting models to generate results for specific firm-size categories. This ability allows for a finer analysis of policy impacts on small firms than other forecasting tools allow. Generating firm-size-specific outputs requires that inputs also be firm-size-specific. To obtain results for California, the estimates of CA employees without paid sick leave in Table 1 need to be allocated to a pre-defined set of firm-size categories. This allocation of CA employees is described below as an example, as are subsequent steps needed to obtain the final inputs for the state. Identical processes were followed to obtain final inputs for other regions (using data specific to those regions), but these calculations are not shown.

The distribution of the estimated number of CA employees currently ineligible for paid sick leave across firm-size categories was done according to the present firm-size distribution of all CA employees. The case of the construction industry is provided as an example. According to Table 1, an estimated 715,760 CA construction employees are ineligible for paid sick leave. **Table 2.A** gives Census Bureau data on the distribution of CA employees working construction across firm-size groups. Multiplying the estimated number of CA construction workers without paid sick leave, 715,760, by the percentage shares for the firm-size categories in Table 2.A yields an estimated distribution of construction employees without paid sick leave across firm-size categories (**Table 2.B**). This process was repeated for most 2-digit NAICS industry categories to obtain a matrix of estimated CA employees without paid sick leave by firm-size category and major industry (**Table 2.C**), completing the estimation of [1].

Table 2.A: Distribution of CA Construction Employees, 2006

	All Construction Employees	No. of Employees per Firm					
		1-4	5-9	10-19	20-99	100-499	500+
No. of Employees	958,436	71,983	85,270	116,001	303,028	218,889	163,265
% of Employees	100.00%	7.5%	8.9%	12.1%	31.6%	22.8%	17.0%

Source: Census Bureau, Statistics of U.S. Businesses

Table 2.B: Estimated Distribution of CA Construction Employees without Paid Sick Leave

	All Construction Employees without Paid Sick Leave	No. of Employees per Firm					
		1-4	5-9	10-19	20-99	100-499	500+
No. of Employees	715,760	53,757	63,680	86,630	226,301	163,466	121,926
% of Employees	100.00%	7.5%	8.9%	12.1%	31.6%	22.8%	17.0%

Table 2.C: Estimated Number of CA Employees without Paid Sick Leave, by Firm Size and Industry

Industry	No. of Employees per Firm					
	1-4	5-9	10-19	20-99	100-499	500+
Agriculture	1,223	1,144	1,465	5,479	4,250	2,399
Mining	224	370	638	1,563	1,444	6,724
Utilities	74	84	81	169	400	7,944
Construction	53,757	63,680	86,630	226,301	163,466	121,926
Manufacturing	14,277	24,185	42,458	158,052	143,387	313,095
Wholesale Trade	14,470	17,042	22,773	58,204	43,906	82,327
Retail Trade	43,406	55,106	60,452	128,688	92,591	554,518
Transportation/Warehousing	6,282	7,584	11,531	28,620	20,934	124,869
Information	2,868	2,720	4,304	13,030	13,649	97,549
Finance and Insurance	6,412	4,673	4,802	12,280	14,901	87,902
Real Estate	15,570	11,151	10,715	22,431	15,111	34,615
Prof., Scientific, & Tech. Services	33,772	28,363	32,978	68,552	49,093	168,811
Management	77	77	135	1,838	6,841	58,977
Admin., Support, Waste Man., & Rem. Services	23,361	26,418	33,402	102,979	132,907	477,433
Education	2,157	3,341	5,525	21,339	20,230	48,027
Healthcare and Social Assist.	24,386	33,245	32,772	66,674	66,149	226,363
Arts, Entertain., & Recreation	9,037	8,064	11,142	38,936	37,362	91,831
Accom. and Food Services	30,969	58,260	105,080	280,736	156,343	400,339
Other Services	36,404	39,096	41,052	80,416	40,215	57,484

Regarding [2], the quantity of additional paid leave taken under H.R. 2460 will be the sum of additional time off taken by newly eligible workers either for traditional family and medical leave reasons or to deal with the impact of domestic violence in their lives. These two sets of workers are dealt with separately in the model. For the former set, it is assumed that newly eligible employees will each year use 60 percent of the maximum amount of paid sick time they can accrue each year under H.R. 2460, or 33.6 hours per year, for traditional family and medical leave reasons. This assumption is based on existing data on take-up rates for the Family and Medical Leave Act and is described in detail in Footnote 1.

The assumed quantity of paid time off that would be taken by the second set of workers, those taking time off to deal with domestic violence, is based on statistics from the Justice Department’s National Violence Against Women Survey. According to the 2000 survey, 1.8 percent of women and 1.1 percent of men are victimized by an intimate partner each year. The types of victimizations suffered by these persons include rape, physical assault, and stalking. Using these figures as a benchmark, the model assumes that 1.5 percent of workers suffer from domestic violence each year and that workers who are victims will avail themselves of available paid leave to seek medical attention, ensure their personal safety, or take legal action. Given the gravity of domestic violence cases, it is reasonable to expect that workers who are victimized would take the maximum amount of paid time off from work each year (56 hours). The practical implication of these

assumptions is that an additional 0.6 percent of paid time off available to newly eligible workers is used each year.⁴

Estimates for [3], employee compensation, were derived using industry-level data on the average workweek lengths of employees and average hourly earnings⁵ or wages of employees. Data on average workweek lengths of employees are from the Bureau of Labor Statistics’ Current Employment Statistics database, as are data on average hourly earnings for non-agricultural employees. For agricultural employees, wage data from the Department of Agriculture’s National Agricultural Statistics Service were used. The BLS and DOA workweek length and earnings/wage data are given in columns (A) and (B) in **Table 3**. Column (C) gives the average hourly earnings/wages per worker adjusted for overtime compensation.⁶ The values in column (D) are the maximum possible earnings/wage cost per employee per year (56 hours) given the values in column (C). Column (E) contains earnings/wage costs equal to 60.6 percent of the values in Column (D). These are the estimated per-employee cash compensation costs associated with the 60.6 percent take-up rate described above.

Table 3: Estimated Earnings, Wages, and Hours Worked by CA Employees, by Industry⁷

Industry	Avg. # Hrs. Worked per Week (A)	Avg. Hourly Earnings/Wages (B)	Avg. Adjusted Hourly Earnings/Wages (C)	Earnings/Wages per Employee for 56 Hours Worked (D)	Earnings/Wages per Employee for 33.9 Hours Worked (E)
Agriculture	43.3	\$11.11	\$10.70	\$599.32	\$363.19
Mining	42.4	\$27.97	\$27.20	\$1,523.21	\$923.07
Utilities	34.3	\$21.15	\$21.15	\$1,184.40	\$717.75
Construction	35.2	\$27.47	\$27.47	\$1,538.32	\$932.22
Manufacturing	37.8	\$26.84	\$26.84	\$1,503.04	\$910.84
Wholesale Trade	37.9	\$25.42	\$25.42	\$1,423.52	\$862.65
Retail Trade	31.3	\$15.40	\$15.40	\$862.40	\$522.61

⁴ The assumption that 60 percent of available paid sick leave is used for traditional family and medical leave reasons leaves 40 percent of available paid leave time for workers dealing with domestic violence. The assumption that workers dealing with domestic violence will use the maximum amount of paid time off available means that an additional 0.6 percent (1.5% x 40%) of available paid time off is used.

⁵ Average hourly earnings reported by BLS reflect the actual return to a worker for a stated period and are different from wage rates, which are the amounts stipulated for given units of work or time. BLS earnings do not measure the level of total labor costs on the part of employers since they exclude items like benefits, irregular bonuses, retroactive items, and the employer’s share of payroll taxes.

⁶ For industries where the average workweek length exceeded 40 hours, non-overtime hourly earnings/wages were imputed for use in calculating compensation costs due to the paid sick leave mandate. Overtime pay was assumed to equal 1.5 times regular pay for the relevant industries. Non-overtime earnings/wages were estimated using the equation: Average Weekly Earnings/Wages = (40 Hours) x (Non-Overtime Earnings/Wage Rate) + (Avg. Workweek Length in Hours – 40) x (Overtime Earnings/Wage Rate).

⁷ With the exception of Agriculture, all dollar values in Table 3 represent or are derived from 2008 earnings data taken from the Bureau of Labor Statistics’ Current Employment Statistics (CES) dataset. When available, state-specific earnings data was used. In the absence of state-specific earnings data, national-level data was used. No earnings data for agriculture was available, so 2009 wage data from the Department of Agriculture’s National Agricultural Statistics Service was used instead.

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Transportation/ Warehousing	34.3	\$21.15	\$21.15	\$1,184.40	\$717.75
Information	35.7	\$33.75	\$33.75	\$1,890.00	\$1,145.34
Finance and Insurance	36.8	\$30.64	\$30.64	\$1,715.84	\$1,039.80
Real Estate	33.8	\$21.23	\$21.23	\$1,188.88	\$720.46
Prof., Scientific, & Tech. Services	35.2	\$31.57	\$31.57	\$1,767.92	\$1,071.36
Management	37.1	\$31.89	\$31.89	\$1,785.84	\$1,082.22
Admin., Support, Waste Man., & Rem. Services	33.5	\$17.73	\$17.73	\$992.88	\$601.69
Education	33.6	\$25.41	\$25.41	\$1,422.96	\$862.31
Healthcare and Social Assist.	33.6	\$25.41	\$25.41	\$1,422.96	\$862.31
Arts, Entertain., & Recreation	25.0	\$18.15	\$18.15	\$1,016.40	\$615.94
Accom. and Food Services	26.1	\$14.34	\$14.34	\$803.04	\$486.64
Other Services	30.6	\$20.94	\$20.94	\$1,172.64	\$710.62

As mentioned earlier, BSIM requires inputs to be provided for individual firm-size categories. This was achieved by multiplying the earnings/wage costs in column (E) by the industry-by-firm-size matrix of estimated numbers of employees without paid sick leave (Table 2.C). The end result is an industry-by-firm-size matrix of new compensation costs to employers for providing paid sick leave under H.R. 2460 (Table 4). These compensation costs are based on the latest data available and are assumed to apply for the year 2011. Recall that under H.R. 2460, firms with fewer than 15 employees are exempt, which is why compensation costs for firms with one to four, or five to nine employees, are zero.

Table 4: Estimated Earnings and Wages Paid by Firms to CA Employees Newly Eligible for Paid Sick Leave, Year 2011

Industry	No. of Employees per Firm					
	1-4	5-9	10-19	20-99	100-499	500+
Agriculture	\$0	\$0	\$227,397	\$2,014,269	\$1,562,302	\$881,766
Mining	\$0	\$0	\$254,555	\$1,475,920	\$1,363,548	\$6,351,709
Utilities	\$0	\$0	\$27,966	\$138,439	\$328,914	\$6,525,041
Construction	\$0	\$0	\$34,393,677	\$212,733,495	\$153,665,740	\$114,616,254
Manufacturing	\$0	\$0	\$16,771,426	\$147,825,439	\$134,109,408	\$292,836,425
Wholesale Trade	\$0	\$0	\$8,802,098	\$53,265,897	\$40,180,659	\$75,342,374
Retail Trade	\$0	\$0	\$13,613,643	\$68,618,300	\$49,371,018	\$295,677,800
Transportation/ Warehousing	\$0	\$0	\$3,605,249	\$21,186,456	\$15,496,872	\$92,437,143
Information	\$0	\$0	\$2,232,587	\$16,002,439	\$16,762,803	\$119,802,429
Finance and Insurance	\$0	\$0	\$2,349,031	\$14,223,199	\$17,258,667	\$101,812,426
Real Estate	\$0	\$0	\$3,421,183	\$16,957,464	\$11,423,890	\$26,168,632
Prof., Scientific,	\$0	\$0	\$15,738,039	\$77,462,414	\$55,473,453	\$190,751,792

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& Tech. Services						
Management	\$0	\$0	\$66,964	\$2,152,326	\$8,009,621	\$69,047,118
Admin., Support, Waste Man., & Rem. Services	\$0	\$0	\$8,581,932	\$62,647,384	\$80,854,259	\$290,447,228
Education	\$0	\$0	\$2,119,341	\$19,382,122	\$18,374,936	\$43,622,802
Healthcare and Social Assist.	\$0	\$0	\$12,662,734	\$60,998,572	\$60,517,963	\$207,094,626
Arts, Entertain., & Recreation	\$0	\$0	\$2,937,171	\$24,303,249	\$23,320,342	\$57,318,960
Accom. and Food Services	\$0	\$0	\$21,747,407	\$137,569,250	\$76,612,603	\$196,177,924
Other Services	\$0	\$0	\$12,617,428	\$58,522,089	\$29,265,655	\$41,833,474

The reader will note that the compensation figures given in Table 4 do not represent the total labor cost to employers generated by H.R. 2460. Significant additional costs include employee benefits and payroll taxes paid by employers for employees newly taking sick leave. To estimate the true labor cost to employers, the figures in Table 4 must be adjusted to account for these factors.

The incorporation of employee benefits into the model was achieved by adjusting the compensation figures in Table 4 upward by a percentage based on the ratios of benefits and wages/salary to total compensation. The Bureau of Economic Analysis reports that in 2008, average compensation per private sector employee totaled \$59,909. Of this figure, \$50,028 was due to wage and salary accruals. The balance of \$9,881 consists of non-cash benefits and other wage and salary supplements, including the employer’s share of payroll taxes. In general, an employer’s share of payroll taxes equals 7.65 percent of employee wages and salary. Of this 7.65 percent, 6.2 percentage points are intended to help fund old age, survivors, and disability insurance, and 1.45 percentage points go toward helping to pay for Medicare hospital insurance. Subtracting the employer’s share of payroll taxes from the balance of \$9,881 therefore yields an estimate of the share of employee compensation represented by non-cash compensation, roughly 10.8 percent of total employee compensation.⁸

This share is likely to vary by firm size, given the comparative ease with which large firms can provide non-cash benefits to their employees due to greater financial resources and cost savings achieved through greater purchasing power. In contrast, smaller firms are less able to afford non-cash benefits like health insurance for their workers. For this reason, the percentage share of employee compensation represented by benefits was assumed to vary with the number of workers per firm, with the percentage share represented by benefits being smaller at small firms and larger at large firms. In accordance with this assumption, the cash compensation figures in Table 4 were adjusted upward to reflect the costs of non-cash employee compensation and payroll taxes to

⁸ The balance of \$9,881 includes the employer’s share of payroll taxes. Under current law, the employer’s share of payroll taxes is 7.65 percent of employee wage and salary. On average, this amounts to 0.0765 x \$50,028, or \$3,827 per employee. Subtracting this figure from estimated wage and salary supplements yields \$6,054, roughly 10.8 percent of reported per-employee compensation (not including the employer’s share of payroll taxes).

employers. The resulting adjusted compensation cost figures which include both cash and non-cash compensation are given in **Table 5**.

Table 5: Compensation Costs for CA Employers before Accounting for Tax Benefits, Year 2011

Industry	No. of Employees per Firm					
	1-4	5-9	10-19	20-99	100-499	500+
Agriculture	\$0	\$0	\$252,663	\$2,238,077	\$1,838,003	\$1,102,208
Mining	\$0	\$0	\$282,839	\$1,639,911	\$1,604,174	\$7,939,636
Utilities	\$0	\$0	\$31,073	\$153,822	\$386,957	\$8,156,301
Construction	\$0	\$0	\$38,215,197	\$236,370,550	\$180,783,224	\$143,270,317
Manufacturing	\$0	\$0	\$18,634,918	\$164,250,488	\$157,775,775	\$366,045,531
Wholesale Trade	\$0	\$0	\$9,780,109	\$59,184,330	\$47,271,364	\$94,177,968
Retail Trade	\$0	\$0	\$15,126,270	\$76,242,556	\$58,083,550	\$369,597,250
Transportation/ Warehousing	\$0	\$0	\$4,005,832	\$23,540,507	\$18,231,614	\$115,546,429
Information	\$0	\$0	\$2,480,652	\$17,780,487	\$19,720,945	\$149,753,037
Finance and Insurance	\$0	\$0	\$2,610,034	\$15,803,554	\$20,304,314	\$127,265,532
Real Estate	\$0	\$0	\$3,801,314	\$18,841,626	\$13,439,871	\$32,710,790
Prof., Scientific, & Tech. Services	\$0	\$0	\$17,486,710	\$86,069,348	\$65,262,886	\$238,439,740
Management	\$0	\$0	\$74,405	\$2,391,473	\$9,423,084	\$86,308,898
Admin., Support, Waste Man., & Rem. Services	\$0	\$0	\$9,535,480	\$69,608,205	\$95,122,658	\$363,059,035
Education	\$0	\$0	\$2,354,823	\$21,535,691	\$21,617,572	\$54,528,503
Healthcare and Social Assist.	\$0	\$0	\$14,069,704	\$67,776,191	\$71,197,603	\$258,868,282
Arts, Entertain., & Recreation	\$0	\$0	\$3,263,523	\$27,003,610	\$27,435,696	\$71,648,700
Accom. and Food Services	\$0	\$0	\$24,163,786	\$152,854,722	\$90,132,474	\$245,222,405
Other Services	\$0	\$0	\$14,019,364	\$65,024,543	\$34,430,182	\$52,291,842

The figures in Table 5 are estimates of what employers could expect to pay employees newly taking paid sick leave in the absence of tax distortions through the income tax. They would not be accurate estimates under current tax law, however, which permits employers to deduct the value of certain benefits, like their share of employee health insurance premiums, when calculating income tax liability. This feature of tax law was accounted for in the model by assuming that employers of all sizes (a) pay an income tax rate of 25 percent, (b) have sufficient earnings to deduct the maximum share possible of their contributions toward employee benefits, and (c) actually do deduct the maximum value. To account for this tax benefit, the compensation figures in Table 5 were reduced by an amount equal to 25 percent of the corresponding estimates of non-cash employee benefits. The resultant compensation figures, adjusted for the tax deductibility of employee benefits, are given in **Table 6**.

Table 6: Compensation Costs for CA Employers after Accounting for Tax Benefits, Year 2011

Industry	No. of Employees per Firm					
	1-4	5-9	10-19	20-99	100-499	500+
Agriculture	\$0	\$0	\$249,871	\$2,213,346	\$1,793,293	\$1,060,765
Mining	\$0	\$0	\$279,714	\$1,621,790	\$1,565,152	\$7,641,106
Utilities	\$0	\$0	\$30,729	\$152,122	\$377,545	\$7,849,624
Construction	\$0	\$0	\$37,792,919	\$233,758,656	\$176,385,672	\$137,883,353
Manufacturing	\$0	\$0	\$18,429,002	\$162,435,520	\$153,937,879	\$352,282,219
Wholesale Trade	\$0	\$0	\$9,672,039	\$58,530,343	\$46,121,488	\$90,636,876
Retail Trade	\$0	\$0	\$14,959,125	\$75,400,076	\$56,670,668	\$355,700,393
Transportation/ Warehousing	\$0	\$0	\$3,961,567	\$23,280,384	\$17,788,130	\$111,201,883
Information	\$0	\$0	\$2,453,241	\$17,584,013	\$19,241,233	\$144,122,323
Finance and Insurance	\$0	\$0	\$2,581,194	\$15,628,925	\$19,810,411	\$122,480,348
Real Estate	\$0	\$0	\$3,759,310	\$18,633,426	\$13,112,946	\$31,480,865
Prof., Scientific, & Tech. Services	\$0	\$0	\$17,293,481	\$85,118,282	\$63,675,367	\$229,474,406
Management	\$0	\$0	\$73,583	\$2,365,047	\$9,193,867	\$83,063,683
Admin., Support, Waste Man., & Rem. Services	\$0	\$0	\$9,430,113	\$68,839,034	\$92,808,799	\$349,408,016
Education	\$0	\$0	\$2,328,802	\$21,297,721	\$21,091,725	\$52,478,231
Healthcare and Social Assist.	\$0	\$0	\$13,914,234	\$67,027,264	\$69,465,721	\$249,134,835
Arts, Entertain., & Recreation	\$0	\$0	\$3,227,461	\$26,705,220	\$26,768,323	\$68,954,709
Accom. and Food Services	\$0	\$0	\$23,896,776	\$151,165,677	\$87,940,002	\$236,002,042
Other Services	\$0	\$0	\$13,864,450	\$64,306,022	\$33,592,668	\$50,325,669

The compensation cost estimates in Table 6 are based on the latest data available, and we assume them to be the costs employers will pay in 2011. Given inflation, these costs can be expected to be higher in 2012 and beyond. To account for inflation, the model assumes that employee compensation costs increase annually between 2011 and 2015 at their historical rate of growth during the previous decade. Data from the Bureau of Economic Analysis indicate that the average annual percentage change for nominal full-time private sector employee compensation between 1998 and 2008 was 3.79 percent. This growth rate was applied to the figures in Table 6 to obtain estimated compensation costs for years 2012 through 2015 (not shown).

The figures in Table 6 and corresponding tables for years 2012 through 2015 represent the final estimated compensation costs to employers created by H.R. 2460 in the medium term. It should be noted that these estimates rely upon a key assumption regarding employer behavior, namely that no preemptive action is taken by employers in anticipation of the implementation of H.R. 2460. According to the economic theory of rational expectations, rational agents will take actions in the present that optimize the value of expected present and future outcomes. When future expectations change, agents

will adjust their behavior in the present accordingly. Hypothetically, it is possible that some employers will seek to offset some of the expected future costs generated by H.R. 2460 by immediately lowering employee compensation, reducing the number of workers employed, or decreasing other business spending. No such effects were included in the model.

B. Lost Production Due to Absent Workers

In addition to the afore-mentioned compensation costs, increased employee absences would also cause employers to suffer from lost production. Absent workers are unable to produce the goods and services that businesses sell. Given demand, this translates into lost sales which hurt business earnings and profit. A mandated paid sick leave policy will increase the number of work days missed by employees. The financial loss from this increase can be material and is an important consequence of the proposed legislation.

Despite the importance of this cost, exogenous production losses were not included in the BSIM forecast because of technical constraints. For one thing, there is a lack of available data necessary to estimate the magnitude and distribution of these production losses across industries. Labor productivity varies by industry, and labor productivity data only exist or are publicly available for select industries. Modeling and simulating the impact of an industry-neutral policy shock (such as the proposed paid sick leave mandate) using BSIM, however, requires input for all major NAICS industry codes. Including production losses in the model would therefore require the estimation of labor productivity for industries with missing data values, creating a potentially large source of error.

More importantly, BSIM is not set up to accept exogenous changes in production levels as input. Rather, the module is designed to receive input in the form of nominal costs to employers or employees, from which it subsequently computes forecasts for production, employment, and other macro variables. It would be inappropriate to enter exogenous production losses into BSIM as input.

These obstacles prevented the inclusion of exogenous production losses due to increased worker absences from the analysis. To the extent that such losses are absent, the forecast job and output losses associated with H.R. 2460 may be low.

C. Paperwork and Recordkeeping Costs

The proposed mandate would also impose costs on employers in the form of additional paperwork and recordkeeping. Small business owners frequently handle such paperwork and recordkeeping themselves, allocating valuable time and energy to these administrative tasks that could be spent acquiring new customers, making business decisions, or otherwise operating and growing their businesses. According to a 2003 NFIB National Small Business Poll on paperwork and recordkeeping, 39.3 percent of small business owners/managers surveyed indicated that they personally handled their businesses' personnel paperwork and recordkeeping.⁹ In that same survey, small

⁹ See William J. Dennis, Jr., "Paperwork and Record-keeping," NFIB National Small Business Poll, Volume 3, Issue 5, 2003.

business owners/managers responded that they felt \$40 (approximately) was a fair per-hour amount to claim for the time and effort they spent doing paperwork and recordkeeping required by government.¹⁰

H.R. 2460 requires employers to “make, keep, and preserve records pertaining to compliance with this Act in accordance with . . . the Fair Labor Standards Act . . . and in accordance with regulations prescribed by the Secretary [of Labor].” To account for this burden, an employer newly providing paid sick leave under H.R. 2460 is assumed to face a new paperwork and recordkeeping cost of 10 person-hours per year. At \$40 per hour, the paperwork and recordkeeping costs for employers newly offering paid sick leave translates to \$400 per year per employer.

Effects of H.R. 2460 on Private Sector Demand

Employees newly eligible for paid sick leave who use it can be expected to increase demand for healthcare-related goods and services. Employees may, for example, spend their paid sick leave time visiting the doctor’s office, going to the dentist, or purchasing and taking medication for an illness. All these activities represent increases in the consumption of healthcare-related goods and services. However, not all takers of sick leave will increase healthcare spending. For many with non-serious health conditions like a bout of common cold, the time off will likely be spent recovering at home with no major medical expenditures required.

This study assumes that total new private healthcare spending equals 50 percent of new employer costs generated by the mandate. Increased demand for healthcare by employees is assumed to be distributed across industries according to historical patterns of healthcare expenditures in the United States. The assumed distribution is given in **Table 7** and was extrapolated from data on 2006 U.S. healthcare expenditures provided by the Centers for Medicare and Medicaid Services’ National Health Expenditures Accounts. The pattern of healthcare expenditures is assumed to be static in the medium term, so new demand for healthcare is allocated according to the distribution in Table 7 for all forecast years (2011 through 2015).

Time off from work also presents other opportunities for consumption unavailable during the course of a normal work day. This study assumes that spending at retailers will increase by a dollar amount equal to five percent of new employer costs. Likewise, spending at food and drinking places and businesses in the “Amusement, Gambling, and Recreation Industry” (according to NAICS) are each assumed to increase by a dollar amount equal to 10 percent of new employer costs.

¹⁰ The poll asked respondents whether they thought government should compensate them for dealing with the added paperwork and recordkeeping it required of their businesses. Respondents who answered “Yes” were then asked: “What do you think would be a fair per hour amount to claim for your time and efforts?” The average response was \$43.30. Respondents who answered “No” were asked: “If the decision were made to reimburse you, what do you think would be a fair per hour amount to claim for your time and effort?” Their average response was \$40.72.

Table 7: Assumed Distribution of New Healthcare Expenditures Generated by H.R. 2460

Hospital Care	33.6%
Ambulatory Healthcare Services	31.4%
Insurance Carriers	16.3%
Prescription Drugs	10.3%
Nursing Home and Residential Care Facilities	8.4%
Total:	100.0%

Source: Centers for Medicare and Medicaid Services

Effects of H.R. 2460 on Government Demand

H.R. 2460 will create new responsibilities for government, which must administer and enforce the mandate. The Department of Labor is directed to investigate and attempt to resolve any complaints of violations of H.R. 2460 and may pursue the recovery of damages in court on behalf of plaintiffs. Government tools for administering and enforcing similar mandates already exist in the Department of Labor’s Wage and Hour Division (WHD), which is responsible for ensuring compliance with the minimum standards for wages and working conditions in the United States. WHD is already responsible for administering and enforcing the Family and Medical Leave Act (FMLA), which entitles eligible employees of covered employers to take up to a total of twelve weeks of unpaid leave per year for health reasons or to care for a family member. Administration and enforcement of a new paid sick leave mandate could be achieved by expanding existing tools used to oversee the FMLA, costing less than the creation of a set of new, separate tools.

The bill also requires the annual collection of data on paid sick time by the government. The Bureau of Labor Statistics is ordered to compile annual statistics on the number of employees who use paid sick time, the number of hours of paid sick time used, and the number of employees who use paid sick time for absences necessary to deal with domestic violence in their lives. Additionally, the GAO is ordered to conduct annual studies investigating the amount of paid sick time used by employees, the costs and benefits of paid sick time policies to employers and employees, and other items like the impact of paid sick time on other forms of employee compensation and employee retention, turnover, and presenteeism.

Figures from the Department of Labor’s Congressional Budget Justification provide useful guidelines that can help to estimate new government costs related to administration, enforcement, and data collection. The FY 2011 budget request for the entire DOL Wage and Hour Division was \$244 million. New WHD costs generated by H.R. 2460 will be less than this amount. Additionally, the FY 2011 budget request for the BLS Labor Force Statistics programs is \$217 million. Data collection on paid sick leave by the BLS and GAO can be expected to be less than this sum. Taking all this into account, it was assumed that new government costs generated by H.R. 2460 totaled \$100 million in each of the forecast years. BSIM treats these new government costs as an increase in demand which partially offsets the impact of new employer costs in the private sector.

Forecasted Economic Impact of H.R. 2460

The BSIM results suggest that H.R. 2460 could cause substantial job loss and output loss in the private sector. Based on the assumptions described above, BSIM forecasts that if H.R. 2460 is implemented:

- Over 570,000 private sector jobs will be lost by 2015.
- U.S. real GDP will be \$93.6 billion less in 2015 than if H.R. 2460 had not been implemented. This output gap can be expected to grow larger in years beyond 2015.
- Cumulatively, over \$382 billion in real output will be lost between 2011 and 2015.

Detailed employment forecasts are given in **Table 9**. The forecasts are presented as employment differences relative to a baseline forecast. The baseline forecast represents the path of the economy if no policy shock occurs and H.R. 2460 is not implemented. Negative values indicate job losses, and positive values represent job gains. For example, according to the results, firms with 20 to 99 employees are forecast to lose 64,028 jobs in 2011, assuming the mandate goes into effect next year. Additional jobs are lost in subsequent years. BSIM forecasts that by 2015, there will be 107,801 fewer jobs at firms currently with 20 to 99 employees than there would have been had H.R. 2460 not been implemented.

Table 9: Forecast U.S. Nonfarm Private Sector Employment Difference from Baseline (in Units)

		Year				
		2011	2012	2013	2014	2015
Firm Size (No. of Employees per Firm)	1 to 4	-26,146	-31,206	-35,784	-38,596	-40,193
	5 to 9	-26,229	-31,669	-36,574	-39,568	-41,252
	10 to 19	-29,125	-35,791	-41,728	-45,379	-47,461
	20 to 99	-64,028	-79,887	-93,949	-102,692	-107,801
	100 to 499	-44,138	-56,377	-67,641	-74,877	-79,348
	500+	-162,265	-194,221	-227,131	-249,225	-263,646
	All Firms	-351,931	-429,151	-502,807	-550,337	-579,701

The job losses forecast to occur at small firms are substantial. By 2015, firms with fewer than 500 employees are forecast to shed over 316,000 workers. Firms with fewer than 100 employees are forecast to employ nearly 237,000 fewer workers, and over 129,000 jobs will be lost at firms with fewer than 20 workers. **Table 10** gives the relative share of all jobs lost that these figures represent. In 2015, 55 percent of the employment gap (jobs lost) will be at firms with fewer than 500 employees. Forty-one percent of the employment gap will be at firms with fewer than 100 employees. And despite an exemption for firms with fewer than 15 employees, 22 percent of job losses are still forecast to occur at firms with fewer than 20 employees. These relative shares of the employment gap change little from 2011 to 2015.

Table 10: Small Business Share of Forecast Job Losses

		Year				
		2011	2012	2013	2014	2015
Firm Size	< 20 Employees	23.2%	23.0%	22.7%	22.4%	22.2%
	< 100 Employees	41.4%	41.6%	41.4%	41.1%	40.8%
	< 500 Employees	53.9%	54.7%	54.8%	54.7%	54.5%

Detailed forecasts for real output are given in **Table 11**. As with employment, the output forecasts are presented as differences relative to a baseline forecast representing the path of the economy if H.R. 2460 is not implemented. The output gap is forecast to total over \$55 billion in 2011 and is forecast to grow in subsequent years, totaling over \$93 billion in 2015. Between 2011 and 2015, over \$382 billion in real output is expected to be lost as a consequence of the paid sick leave mandate.

The small business share of these output reductions is given in **Table 12**. As with employment, small firms are forecast to bear a major share of output losses. In 2015, over 47 percent of the decrease in output will occur at firms with fewer than 500 employees. Thirty-three percent will occur at firms with fewer than 100 employees. And seventeen percent of output losses is forecast to occur at firms with fewer than 20 employees, in spite of the exemption for firms with fewer than 15 employees.

Table 11: Forecast U.S. Real Output Difference from Baseline (in Billions of 2000 \$s)

		Year				
		2011	2012	2013	2014	2015
Firm Size (No. of Employees per Firm)	1 to 4	-3.0	-3.6	-4.1	-4.5	-4.7
	5 to 9	-2.9	-3.5	-4.1	-4.5	-4.8
	10 to 19	-3.5	-4.3	-5.1	-5.6	-5.9
	20 to 99	-9.1	-11.2	-13.2	-14.6	-15.6
	100 to 499	-7.7	-9.6	-11.4	-12.7	-13.6
	500+	-29.2	-34.9	-40.9	-45.4	-48.9
	All Firms	-55.5	-67.1	-78.8	-87.2	-93.6

Table 12: Small Business Share of Forecast Output Losses

		Year				
		2011	2012	2013	2014	2015
Firm Size	< 20 Employees	17.1%	17.0%	16.9%	16.7%	16.5%
	< 100 Employees	33.5%	33.7%	33.6%	33.4%	33.2%
	< 500 Employees	47.4%	47.9%	48.0%	47.9%	47.7%

Summary

The paid sick leave mandate proposed in H.R. 2460 would impose new costs on employers in the forms of compensation costs associated with paying more workers taking paid leave, lost production due to absent workers, and new paperwork and recordkeeping costs incurred by complying with the mandate. Assuming implementation of H.R. 2460 in 2011, BSIM forecasts that over 570,000 private sector jobs could be lost and real GDP could decrease by over \$93 billion by 2015. Small firms would bear a major share of job and output losses.

Charts

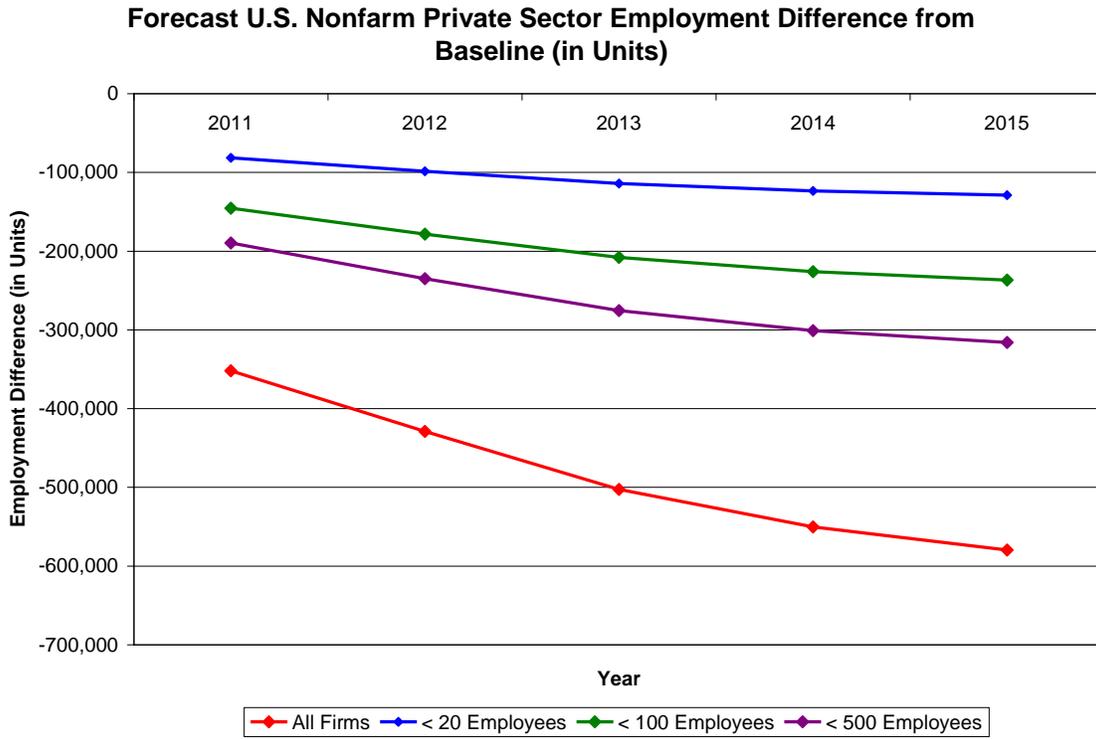


Figure 1

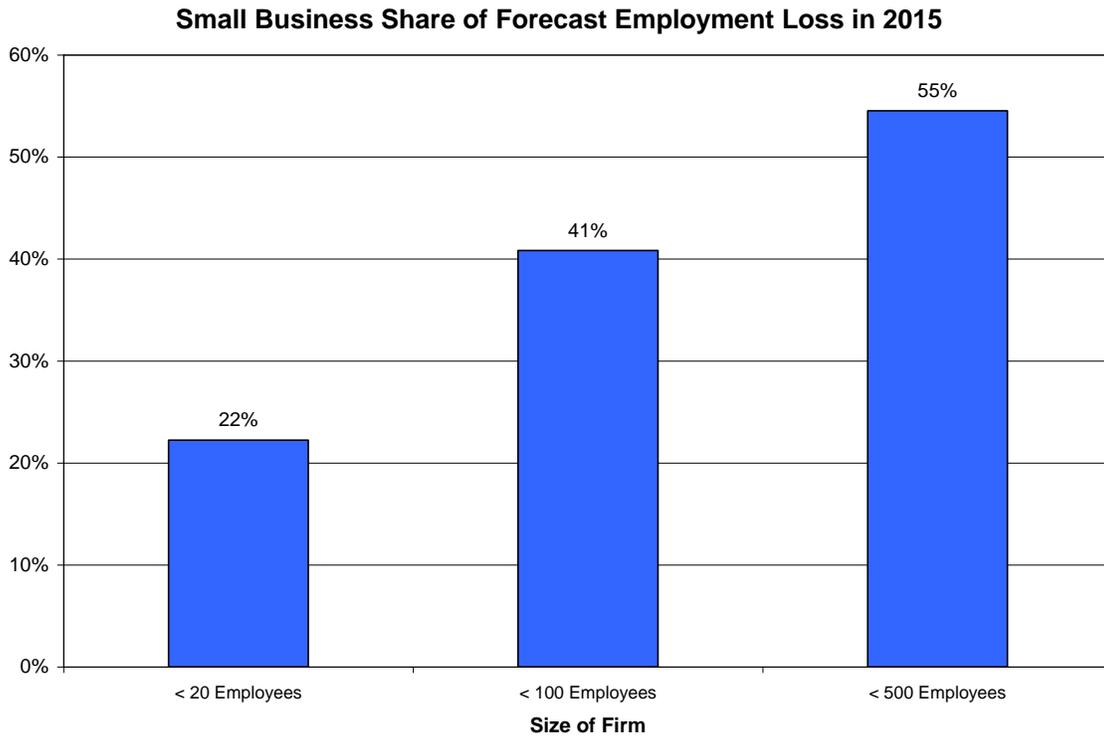


Figure 2

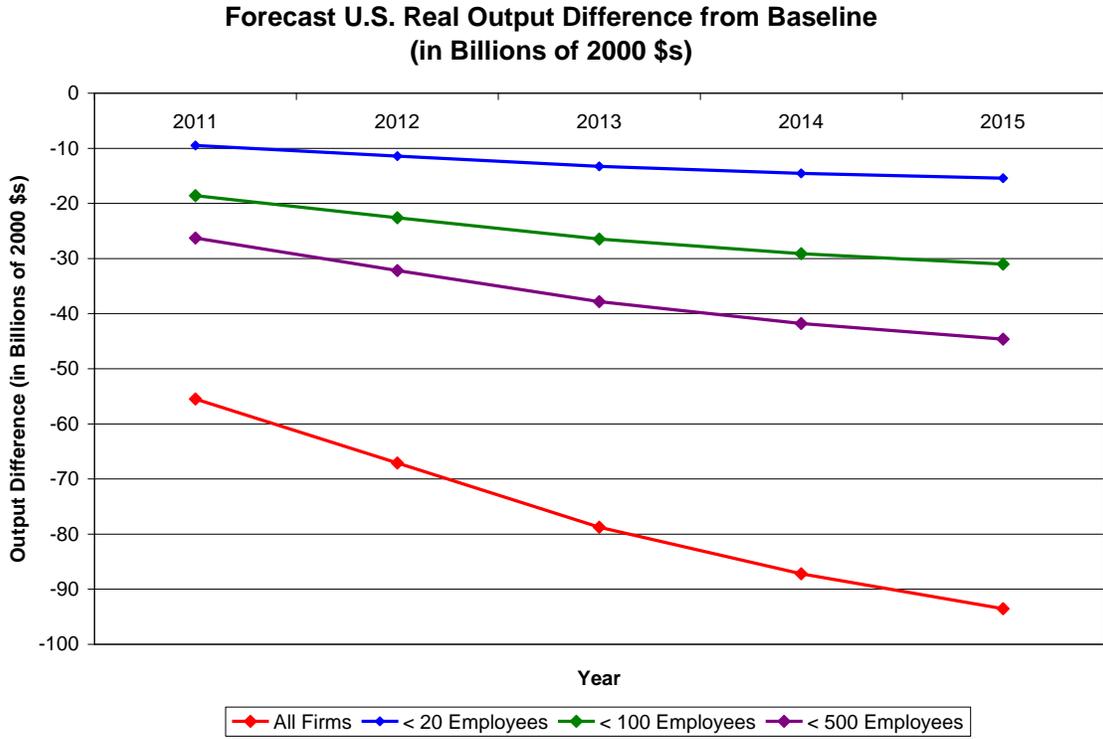


Figure 3

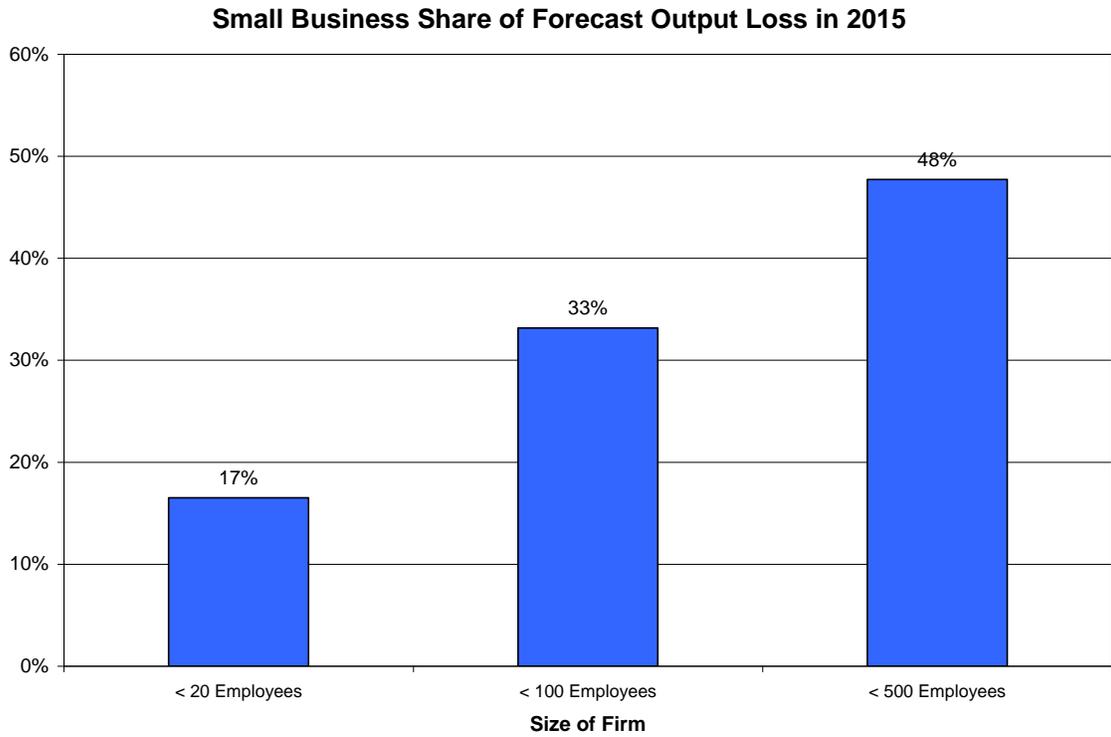


Figure 4