Paid Family Leave: Exchange, Insurance or Investment?
Comparing new proposals for bringing paid leave to U.S. families

Rachel Anderson
Resident Fellow, Center for Public Justice
February 2020

Key Points

- Congress is considering three bills related to paid family leave. Each bill creates a path to paid leave for workers whose employers do not provide or cannot afford the benefit.
- Two bills establish parental leave only. Another covers parental, family caregiving, and personal medical leaves from work.
- The proposal to exchange a child tax credit for paid family leave imposes the largest cost on leave-taking families during their child rearing years.

Introduction

Family is a foundational social institution, the health of which affects our whole society. In recent years, policymakers have responded to families’ desire for a better balance between work and family with innovations in paid family leave. Research on paid family leave in other countries and in early-adopter states in the U.S. shows a strong positive correlation between paid parental leave and improvements in child health. Mothers can rest and heal after giving birth, and parents have time to establish loving bonds with their children. Paid leave for caregiving, particularly at the end of life, honors the sanctity of life at all its stages and helps lift the heavy burden experienced by our nation’s family caregivers.

Policymakers have introduced several proposals to make paid leave more widely available. In 2019, three different pieces of paid family leave-related legislation were filed in Congress: The Advancing Support for Working Families Act, the FAMILY Act, and the New Parents Act. The policy designs differ significantly. This brief considers each proposal, offering context and some analysis based on the best available evidence and principles that the Center for Public Justice has identified as core to family policy.
Three Approaches to Paid Family Leave

Advancing Support for Working Families Act: A birth-year tax credit boost in exchange for future child tax benefits

The federal tax code has included a flat-rate, per-child Child Tax Credit since 1997. Designers of the credit sought to make the U.S. tax system more pro-family by offsetting a share of what families spend raising a child, estimated recently as $13,000 per year. The tax credit, currently $2,000 per child per year, also alleviates material hardship for the lowest income families.

In December 2019, several members of Congress introduced legislation to offer expecting and new parents a child tax credit advance of $5,000. As the bill title - “Advancing Support for Working Families Act” - suggests, the benefit is structured as an advance on the household's future child tax credits. In exchange for the advance, the plan calls for families to reduce their child tax credit by $500 per year for the next 10 years. This brief refers to the bill as the “Advancing Support Act.”

The Tax Cuts and Jobs Act of 2017 (TCJA) provides crucial context for understanding the Advancing Support Act. Proponents of the Advancing Support Act assert that the TCJA improved household balance sheets through various tax changes including the temporary increase in the child tax credit from $1,000 to $2,000 per child per year.

The TCJA instituted a variety of changes to the family tax bill alongside the increase in the child tax credit. The law lowered many household’s tax rates and eliminated personal and dependent exemptions in exchange for doubling the standard deduction. The effects are complex and vary by household but, on average, resulted in modest tax savings.

Experts at the Tax Policy Center investigated how much households at different income levels save as a result of the 2017 Tax Cuts and Jobs Act. They identify tax savings between

<table>
<thead>
<tr>
<th>Annual Household Earnings</th>
<th>$15,000</th>
<th>$30,000</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Tax Savings after TCJA</td>
<td>$63</td>
<td>$817</td>
<td>$1,346</td>
</tr>
</tbody>
</table>

Table 1. Tax savings under the TCJA as estimated by the Tax Policy Center

For a household with two adults (filing jointly), two dependent children

<table>
<thead>
<tr>
<th>Annual Household Earnings</th>
<th>$15,000</th>
<th>$30,000</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Tax Savings after TCJA</td>
<td>$63</td>
<td>$817</td>
<td>$1,346</td>
</tr>
<tr>
<td>ASA Annual Claw-back</td>
<td>($500)</td>
<td>($500)</td>
<td>($500)</td>
</tr>
<tr>
<td>Est Tax Savings Under TCJA + ASA</td>
<td>-$437</td>
<td>$317</td>
<td>$846</td>
</tr>
</tbody>
</table>

Table 2. Estimated tax savings under the TCJA and Advancing Support Act

For a household with two adults (filing jointly), two dependent children
$63 to $1,346 per year for low- to moderate-income families of four (Table 1). Were the Advancing Support Act enacted, households who use a child tax credit advance as paid family leave would see the tax savings offered by the TCJA diminish or disappear in the following years. Table 2 estimates tax savings for families at different income levels had they advanced one of their child tax credits to provide paid family leave.

**New Parents / CRADLE Act: Exchanging future Social Security payments for paid parental leave**

In 2018, attorney Kristin Shapiro and former Social Security commissioner Andrew Biggs introduced the idea of paid family leave as an advance on workers' future social security benefits. This concept has made its way into one piece of legislation, the Economic Security for New Parents Act, and one proposal that has not yet been introduced as legislation, the Child Rearing and Development Leave Empowerment (CRADLE) Act. Although the two proposals have some differences, the broad approach is the same. This brief refers to these proposals jointly as the New Parents/CRADLE Act.

Under the New Parents/CRADLE Act, new and expecting parents could seek a monthly benefit from the Social Security Administration for up to three months. The base benefit would be calculated as if a worker were receiving a Social Security Disability Insurance payment. But, under the New Parents/CRADLE Act, two-parent households could consolidate their benefits to create a larger sum for one caregiving parent. In exchange for receiving paid family leave, parents would delay or forfeit some of their social security benefits at retirement.

The Tax Policy Center created a model to help estimate the impact of the New Parents/CRADLE Act on households over time. They concluded that median wage households would receive a benefit of just under 60 percent of a leave-taker's gross wages, with higher benefits available by consolidating two benefits into one or shortening the benefit period. Parents who utilize the program’s paid family leave would experience a three percent reduction in

---

**Principles for Paid Family Leave**

The Center for Public Justice believes in the value of healthy families and in the dignity of work. We evaluate paid family leave policies according to the following principles:

- Affirm the dignity of all kinds of work and extend benefits to workers regardless of wage level or professional status
- Honor family caregiving by women as well as men, for newborn infants and other vulnerable family members
- Provide practical support to effectively help families at crucial moments in family life
- Address system challenges, including disparities in wealth, job access, and income that affect family flourishing
- Support the economic vitality of employers, including small businesses and nonprofit organizations
- Steward public resources well

---
their retirement benefits per leave taken. Put another way, a worker who takes 12 weeks of leave would need to delay his or her social security benefits by about twice that time.

**FAMILY Act: Creating a new paid leave benefit funded through payroll taxes**

The final approach to paid family leave builds upon a law that currently shapes American work-family policy: The Family and Medical Leave Act of 1993 (FMLA). Because of FMLA, many American workers can request up to 12 weeks leave from work when a child is born or when they or a loved one face a serious health condition. The FMLA prohibits employers from firing or discriminating against a worker for taking this kind of leave. But the FMLA does not guarantee leave-taking workers any pay. One major paid leave proposal, the “Family and Medical Insurance Leave Act” (FAMILY Act) turns this employee protection into an employee benefit.¹²

The FAMILY Act would establish a monthly benefit equal to two-thirds of a workers’ wage for 12 weeks of caregiving leave or recovery from a serious personal health condition. The benefit caps at $4,000 per month and would be administered by the Social Security Administration.

<table>
<thead>
<tr>
<th>Circumstances Covered</th>
<th>FAMILY Act</th>
<th>New Parents/CRADLE Act</th>
<th>Advancing Support Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>A child is born or adopted</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>A family fosters a child</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A family member needs care for a serious medical condition</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>A worker experiences a serious medical condition</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>A family member is called to active military duty</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Table 4. Relationship to the Care Recipient

<table>
<thead>
<tr>
<th>Circumstance</th>
<th>FAMILY Act</th>
<th>New Parents/CRADLE Act</th>
<th>Advancing Support Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a new child by birth or adoption</td>
<td>Parent</td>
<td>A parent who intends to maintain the same principle place of abode as the child for at least half the year following birth or adoption</td>
<td>Parent</td>
</tr>
<tr>
<td>For a foster child</td>
<td>Foster Parent</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>For a serious medical condition</td>
<td>Parent Child Spouse Domestic Partner Self</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
To fund benefits, the FAMILY Act proposes a 0.4 percent increase in the federal payroll tax: 0.2 percent paid by employees and 0.2 percent paid by employers. Like the Advancing Support Act, this tax increase would decrease the savings families receive from the Tax Cuts and Jobs Act.

Critics of the FAMILY Act argue that more households will utilize the benefit than anticipated by the legislation’s drafters. They believe that the cost of benefits will exceed projections and that the program will require more than a 0.2 percent payroll tax on both employees and employers. To account for this concern about program growth beyond current projections, this brief doubles the proposed payroll tax increase to 0.4 percent for both employees and employers. Taking estimated post-TCJA tax savings as a starting point and the family income models referenced above, low- and moderate-income families would retain between $3 and $1,146 of their tax savings were the FAMILY Act enacted.

Approximately half of the projected costs of the FAMILY Act result not from paid family leave but from the bill’s coverage of short-term personal medical leave for all workers. This is likely the most variable and expansive element of the proposal.

### Comparing Policy Proposals: One shared principle and two key differences

Everyone should have the opportunity to honor their family responsibilities - regardless of how much one earns or what job one performs. The brightest spot in the field of paid leave proposals is their shared reflection of this principle. But the proposals differ in several important ways, including the types of caregiving and the practicality of the support for families.

#### One Shared Principle: Covering all work and workers

**Dignity of all work and workers.** Each bill creates a path to paid leave for workers whose employers do not provide or cannot afford the benefit. And the proposals all accommodate work beyond the full-time salaried jobs that traditionally enjoy benefits in the private market. Under each bill, individuals who are self-employed, contract, or part-time workers can access paid leave so long as they have made all required payroll tax contributions prior
to taking leave.

Two Key Differences: Scope of caregiving and practicality of support

Honoring family care from birth to end of life. The Advancing Support and New Parents/CRADLE Acts cover only parental leave for parents who give birth to or adopt a new child. Care for foster children is not covered, nor is care for family at the end of life. The FAMILY Act covers both. Drawing on CPJ's core principles around the value of family across the lifespan, we encourage paid leave proposals to incorporate family caregiving for family members with a serious medical diagnosis or at the end of life.

Providing practical and effective support. The Advancing Support Act offers help to families in the critical first year after a child is born. For some lower-income households, this flat-rate benefit provides more funds up-front for families with a new child than would proposals that provide a percentage of workers' wages. But the benefit is “clawed back” over the next 10 years, depriving those same households from the full value of the child tax credit during their child rearing years. This undermines the bill's practicality and effectiveness in enabling parent-child caregiving and defraying the cost of bringing a child into one's family.

By contrast, both the New Parents/CRADLE Act and the FAMILY Act offer a more practical model for families in their child rearing years. The FAMILY Act's funding mechanism does not include any claw-back feature. The New Parents/CRADLE Act delays claw-back until retirement.

Finally, whereas the Advancing Support Act and the New Parents/CRADLE Act differ in imposing the cost of paid leave now versus the future, both clearly place the cost of family care on families themselves. Whether this makes sense or not depends upon one's point of view. Is caring for family one of many chosen lifestyles or is it, instead, a fundamental contribution to the fabric and future of society? If it is the latter, then a model that treats paid family leave more as an investment than an insurance mechanism or exchange may be more appropriate. New funding mechanisms other than new payroll taxes or benefit trade-offs should be explored. These include a reprioritization within entitlement programs like Social Security and new revenues from excise taxes on items with a potentially negative impact on children, such as carbon, alcohol, or sugar.14,15
Conclusion

All three legislative proposals - the Advancing Support Act, the New Parents/CRADLE Act, and the FAMILY Act - help move the United States toward a universal system of paid family leave. This project is a worthy one. Without a system of paid family leave, many Americans feel pressure to work rather than care for a loved one. Research on paid family leave in other countries and in early-adopter states in the U.S. shows a correlation between paid parental leave and improvements in child health. Children receive immunizations and preventative medical care, mothers breastfeed their infants for a longer duration, and mothers' emotional and mental health improves.

Because paid leave strengthens children and families, the benefit should be designed in a way that encourages its use. Practicality and accessibility should be central to its policy design along with responsible funding mechanisms. Citizens and policymakers alike should continue to advance ideas that could make paid leave the norm and not the exception for families in the United States.

Who We Are

The Center for Public Justice is a Christian public policy and civic engagement organization. CPJ’s Families Valued initiative promotes good work that enables all families to flourish. This work is grounded in and motivated by two core principles: The promotion of healthy families and affirmation of the dignity of work. We believe that, as the Psalmist says, “God puts the lonely in families,” and that humanity’s capacity to cultivate family and to work are both expressions of the image of God in each person.

Rachel Anderson is Resident Fellow at the Center for Public Justice and Director of its Families Valued initiative. Contact Rachel at rachel.anderson@cpjustice.org.
Endnotes

1 No proposal has received a formal cost estimate from the Congressional Budget Office.
4 Many of the individual provisions in the Tax Cuts and Jobs Act are set to expire in 2025. At that point, the child tax credit will revert to $1,000.
8 Maag 2019
9 Estimate considers the combined impact of changes in exemptions and deductions, the tax rate, the Earned Income Tax Credit for low-income families, and the Child Tax Credit. (Maag 2019)
10 Estimate considers the combined impact of changes in exemptions and deductions, the tax rate, the Earned Income Tax Credit for low-income families, and the Child Tax Credit. (Maag 2019)
13 Estimate considers the combined impact of changes in exemptions and deductions, the tax rate, the Earned Income Tax Credit for low-income families, and the Child Tax Credit. (Maag 2019)