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## **California's paid family leave program has stiffed low-wage workers. Congress should ensure national social insurance programs do not.**

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Fixes making California's paid family leave program more progressive tell a cautionary tale. They also may give low-wage workers across the country cause to thank conservative Senate Democrats for blocking a similar initiative tucked in President Biden's failed Build Back Better (BBB) legislation.

The Golden State's first-in-the-nation paid leave program -- financed through a 1.1% payroll tax on workers -- has apparently been redistributing money from lower-income to higher-income families. Low-income workers paying into the program say it does not pay enough in benefits for them to afford to take time away from work.

Gov. Gavin Newsom recently signed legislation to address this issue. Beginning in 2025, benefits for lower-income workers will increase to 90% of their wages and 70% for other workers. Until then, the bill will keep the program's current wage replacement rates, which have stricter benefit limits: 70% of pay for the lowest-income workers — making as much as \$27,000 a year — and 60% for the rest.

Higher-income people have been more likely to take time off under the program offering up eight weeks of paid leave, according to a [CalMatters report](#). From 2017 to 2019, claims by workers making less than \$20,000 a year [declined while they rose](#) for all other workers. Leave claims increased most for those making \$100,000 or more, according to the Employment Development Department.

“Until now, workers who couldn't afford a 40% pay cut were being forced to keep working against their doctor's orders, to work up until the day they go into labor, to leave ill family members without adequate care, and to return to work right after having a child,” said [Katherine Wutchiett](#), staff attorney at Legal Aid at Work, in a news release. “SB 951 finally ends this inhumane status quo.”

Though a form of social insurance, California's paid family leave program is doubly regressive. Its flat tax impacts low-income people the most while the benefit structure locks out many who can't afford to take a break from work.

### **Making Sure Social Insurance Programs Are Fair**

The public often assumes that social insurance programs operate fairly. California's paid family leave experience shows that is not always the case. That's not surprising. Political pressure for public benefits typically comes from the middle-class. Programs are designed by [policymakers](#) with middle-to-high-income life experiences who may not be attuned to issues that low-wage workers face. [National advocates](#), for example, have emphasized providing paid family leave more than paid sick days. Paid sick days would be most beneficial to low-wage workers and result in a smaller cost burden.

Rather than targeting benefits only the poorest and more vulnerable as welfare programs like Medicaid, TANF (welfare), SNAP (food stamps) programs do, [social insurance](#) involves collecting contributions, typically through taxation, and distributing benefits among the entire population or a major cross-section of it. Social insurance typically is authorized through legislation that articulates communitarian principles. At the national level, the most important social insurance programs are Social Security and Medicare.

Universal paid leave provisions in the BBB Act passed by the House in 2021 provided general instructions but not enough detail to determine whether it would be social insurance or how it might impact different income groups. The benefits would have been provided through a program run by the Social Security Administration covering all public- and private-sector workers without regard to employer size, including part-time, and self-employed individuals. But they also could have been provided through "legacy state" paid leave programs or employer plans that met benefit equivalency tests.

If the BBB Act had passed the Senate and implementers emulated California's approach, billions of dollars might have flowed from low-wage workers to the higher income.

The BBB's cap on childcare expenses of 7% of income for families earning up to \$300,000 created [similar policy challenges](#). While subsidized childcare would

meet a pressing need for low- and modest-income working parents, providing benefits to upper-income professionals and related inflationary impacts could have pushed the program's cost as high as \$1 trillion over 10 years. Some analysts warned that massive subsidies combined with costly regulatory requirements could end up reducing care choices for many low-income families.

### **How Fair Is Social Security?**

The progressivity of Social Security's wage replacement structure and its disability benefits more than compensate for the program's regressive payroll tax. However, as I have written before, two trends related to growing economic inequality have made the nation's bedrock social insurance program less progressive.

First, as Americans at the top of the economic spectrum amass equities, bonds, and other assets, the portion of national income from capital investment has increased significantly. [In the United States, labor's share of earnings fell about eight percentage points between 1995 and 2013](#). Since Social Security relies primarily on a tax on labor for its sustenance, the [relative growth of capital income](#) gradually is [choking off](#) its access to revenue.

Second, as discussed in [a paper](#) published by the Society of Actuaries, the widening gap in life span between high- and low-income Americans has had the effect of raising lifetime Social Security benefits for high earners but not for low earners. Defenders of the program typically focus on differences in monthly payments which remain progressive. But viewed on a lifetime cost/benefit basis, Social Security has become relatively less beneficial to low-wage workers, particularly those who happen to die before retirement age.

In light of these trends and concern that many retirees fall below the poverty line, Congress is facing increased pressure to raise benefits for those at the bottom – even from some [conservative analysts](#). When Congress eventually begins the painful task of filling Social Security's financial shortfall, it should do a thorough distributional analysis to make sure money is not being funneled from the bottom to the top of the economic pyramid. New programs should be vetted similarly.

Karl Polzer is founder of the Center on Capital & Social Equity.

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