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**Employment
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THE LABOR MARKET IMPACTS OF **PAID SICK LEAVE**

Evidence from Connecticut

The Employment Policies Institute (EPI) is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research which is conducted by independent economists at major universities around the country.

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Executive Summary

In 2012, Connecticut became the first US state to enact a law requiring private employers to provide paid sick leave. Four years later, the state remains one of the only significant sources of data on the labor market impact of such a law. (California and Oregon only recently enacted similar laws via their state legislatures, as did Massachusetts voters at the ballot box.)

In a survey of Connecticut employers intended to gauge the initial impacts of the law, the Employment Policies Institute found a number of consequences during the law's implementation: Roughly one-third of the 86 surveyed businesses had reduced other employee benefits to account for the law's costs, one-fifth had raised prices, and a similar number had reduced hours or staffing levels.

A 2015 empirical study, published in *Applied Economics Letters*, reviewed the immediate impact of the Connecticut law using 2012 data and found a modest but clear negative effect on the labor market, corresponding to a roughly one percentage point increase in the fraction of unemployed workers.

This report, by Dr. Thomas Ahn of the University of Kentucky, is the first to examine multiple years of Census Bureau data (2012-2014) on the impact of Connecticut's first-in-the-nation state paid sick leave law. To isolate the effects of the paid sick leave law, Dr. Ahn compares Connecticut to the five surrounding New England states, and controls for other relevant economic factors that might be responsible for changes in employment.

Dr. Ahn finds that the fraction of employees working at companies with paid sick leave benefits rises from virtually zero at ages 18 to 20 to about 70 percent for workers in their mid-30s and above. He thus expects a new benefit mandate to have the greatest potential for negative impact on younger employees, who are less likely to have the benefit currently.

This is exactly what the data bear out: While older employees seem largely un-impacted by the law, younger employees in Connecticut aged 20-34 saw a 24-hour reduction in annual hours worked. For a part-time employee in the service industry, that's the equivalent of roughly one lost week of work per year. These employees lost \$850 per year in annual income, the equivalent of 3.5 fewer pre-tax paychecks for someone working part-time at the state's minimum wage.

There are also other consequences to consider: In forthcoming research, Dr. Ahn and his colleague Dr. Aaron Yelowitz find that recent paid sick leave policies in the United States have increased employee absenteeism by 1.2 days per year. Notably, these absences do not tend to occur in times of the most severe influenza outbreaks—suggesting that employees may be using the benefit even when they're not sick.

Dr. Ahn is careful to stipulate that there may be benefits to paid sick leave laws that help ameliorate these costs. However, it's clear from the Connecticut experience that the costs of paid sick leave laws are real—for younger employees in particular.

—*Employment Policies Institute*

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Introduction

What Do We Know About the Labor Market Impact of Mandated Paid Sick Leave?

How does legislatively mandating paid sick leave policy impact the labor market? Economists generally believe that introducing an increase in the cost of labor to firms can have negative consequences for vulnerable workers. A higher cost of labor means that firms may choose to substitute away from workers who may have a higher propensity to use sick-leave toward capital (such as increased automation) or other workers less inclined to take sick days. This may then lead to negative employment effects among some of the most disadvantaged and vulnerable workers.

Proponents of mandated paid sick leave argue that the economic impacts to employers will be small. Many paid sick leave mandates equate to relatively small increases in compensation. Compared with other reforms, such as the Affordable Care Act which mandated employer provision of health insurance, the costs to firms seem minor. There are a number of potential benefits of the policy as well. By mitigating the spread of communicable diseases, public health, as well as the bottom-line (by preventing loss of more productive

employees to sickness) may improve. There are assertions that, in fact, paid sick leave may be a “costless” benefit, as the rate of abusing sick-leave by employees, as measured by the employees using their entire allotment of the benefit, is small.ⁱ

In the United States, paid sick leave provision was not required until recently. Even now, adoption of laws that mandate firms to provide this benefit is often at the local (city) level. Approximately 80 percent of low-wage workers in the U. S. do not have paid sick leave, and the U.S. lags behind other countries by not requiring employers to offer this benefit (Heymann et al. 2007). Paid sick leave has recently been garnering much attention as part of campaign platforms in the presidential election, as well as gaining popular and legislative support in 24 local jurisdictions and five states.ⁱⁱ

Currently, most of the empirical evidence of the impact of mandated paid sick leave is based on studies from Northern Europe (Johansson and Palme, 1996, 2002; Olsson, 2009; Ziebarth and Karlsson, 2010, 2014; Puhani and Sonderhof, 2010). These studies find that a more generous paid sick leave results in more worker absenteeism. This increase in absenteeism has been

corroborated recently with U.S. research finding that a worker that has paid sick days will take about 1.2 more days off from work, compared to similar workers without this benefit (Ahn and Yelowitz, 2016). However, overall, there is a dearth of research looking into the labor market impacts, especially for the U.S.

As paid sick leave policy (as part of a more generous family and medical leave) continues to become a more important (and politically charged) issue, this lack of empirical evidence is troubling, although not surprising. There are at least two reasons why we do not have many studies that examine the impact of this policy on labor market outcomes which would substantively inform the policy debate.

- First, mandated paid sick leave in the U.S. is a relatively new policy. Paid sick leave in the U.S. has traditionally been voluntarily provided by firms. It is only recently that localities and individual states have taken the initiative to make this benefit a mandatory component of compensation. Therefore, there are few “natural” experiments for us to look at to puzzle out the impact on employment.
- Second, the European experience does not line up in substantive ways with the benefits landscape in the U.S. While most European studies analyze the impact of a small change in the benefit level, the baseline benefits are incredibly generous, at least compared to what is usually seen in the U.S. For example, firms in Germany must offer six weeks of paid sick leave at full pay, and up to 78 additional weeks at 80 percent of full pay. In the U.S., less than 1 percent of the working population receives six weeks or more of paid sick days (U.S. Bureau of Labor Statistics, 2013).

Implementation of mandated paid sick leave in the U.S. must take place in a completely different environment, where a new “benefit floor” will be established among a patchwork of voluntarily provided benefits of differing amounts of generosity. How a newly mandated minimum amount of paid sick leave days will affect the labor market is a different question than what has been asked before. In particular, the question of who benefits and who is hurt by the mandate is different, when some of these workers may be largely un-impacted by the new law.

To analyze how the labor market may be affected in the U.S. as states and localities roll out these benefit laws piecemeal, we focus our attention on Connecticut and the surrounding New England states. Connecticut General Statute 31-57r mandated that firms must offer paid sick leave to workers starting January 1, 2012. Manufacturing workers and firms with less than 50 employees were exempted from this mandate. A worker could accrue one hour of paid sick leave for every 40 hours worked, with a maximum accumulated time of 40 hours per year. No other state in the New England area (which will compose our “control” group), had such a law in place in 2012. Because the law has now been in place for a number of years, we have the data to examine some of the important labor market impacts resulting from mandated paid sick leave.

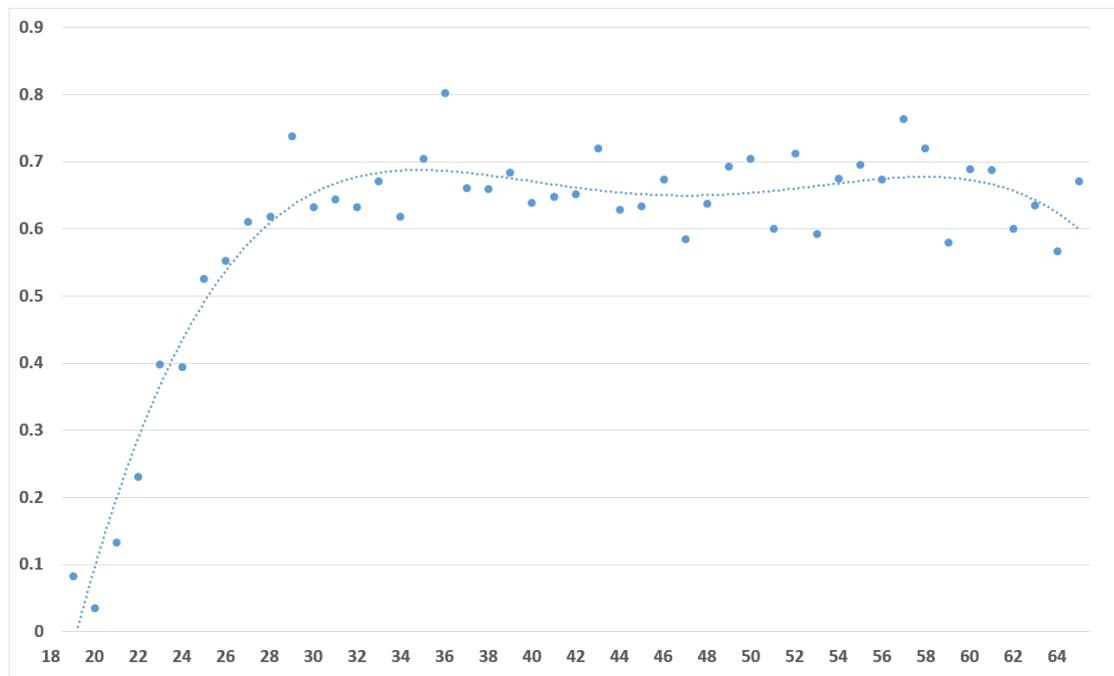
Who Is Expected to Benefit and Be Harmed by a Mandate?

The benefits of mandated paid sick leave are usually expected to accrue to workers with children or older Americans. These workers value (and need) these paid sick days more than relatively younger, single, and healthy workers without dependents. There are always winners and losers when a one-size-fits-all policy is implemented. Therefore, the policy argument should not center on if there are workers harmed by the policy; without a doubt, there will be. The relevant question is, how many workers are hurt and how many benefit, and for each group, by how much? If negative labor market impacts of paid sick leave are modest, while benefits to vulnerable subgroups of the working population are comparatively large, there is a strong economic argument to be made in favor of generous and mandated paid sick leave.

However, answering this question is more complicated for the U.S., as we are not moving from an environment with zero paid sick days to universal provision (or, as is the case in many European studies, a change in benefit generosity for all workers who already have universal provision).ⁱⁱⁱ Because of the voluntary nature of the provision of paid sick leave, workers who value this benefit will have gravitated to jobs that offer paid sick leave, and firms that value such workers will have already taken steps to offer such benefits as a low-cost enticement. In fact, mandated paid sick leave laws will most likely have the largest labor market impact, positive or negative, among younger workers, because a large majority of older workers already have this benefit, voluntarily provided by employers.

Figure 1 below shows the fraction of workers in New England who already had paid sick leave prior to the law passing in Connecticut in 2012.^{iv} The fraction of

Figure 1: Fraction of Workers with Paid Sick Leave Prior to 2012, By Age



Note: Data is percent of workers, by age, who report being offered paid sick leave in their jobs in the North-east region, from the National Health Interview Survey (NHIS).

employees who hold jobs from firms that offer paid sick leave benefits increases from virtually zero at ages 18 to 20 to about 70 percent for workers in their mid-30's and above. An imposition of a benefit floor on this population will have the largest impact for younger workers up to age 34, precisely because these are the workers that by-and-large do not have paid sick leave. Our focus for this study then, will be to examine the labor market impact of the Connecticut paid sick leave mandate on workers in different age groups. The next section presents a detailed description of the data used in the econometric analysis. The final section presents the results of the empirical analysis and provides a discussion of these results.

Data

We use one-year samples of the 2009-2014 American Community Survey: Public Use Microdata Sample (ACS PUMS), which contains approximately one percent of the total U.S. population per year. Unlike most surveys, participants in the ACS are randomly selected and legally obligated to complete the survey, so the usual sample selection problem (where some group of workers may be more or less inclined to complete the survey, leading to biased results) is mitigated. To examine the impact of the Connecticut mandate, our sample is restricted to the six states that compose the New England regions (Connecticut, Massachusetts, New Hampshire, Vermont, Rhode Island, and Maine). We exclude 2012 year data from the analysis. The mandate came into effect in 2012, and firms may have needed time to transition their hiring practices to comply with the law fully.

Consistent with the law's text, we exclude workers in the manufacturing sector. We do not, however, restrict our analysis only to service workers. The law may have the largest impact on industries that employ a higher pro-

portion of service workers, but the impact may not be only isolated to service workers. In this sense, the law's impacts measured by this paper (either positive or negative) could be even larger for directly-affected workers.

We restrict this analysis to only looking at the experience of the currently employed. As the labor market impacts of paid sick leave are expected to be of modest size, if there are any impacts, we should see it in the adjustment of hours and incomes of those who are already employed. A previous study (Ahn and Yelowitz 2015) found a very small increase in unemployment immediately after the Connecticut mandate.

Table 1 presents summary statistics. In the full sample, there are more than 300,000 workers. The typical respondent worked approximately 1,700 hours per year. About 30 percent of workers have a high school degree or less. Service workers, who are most directly impacted by the law, comprise roughly one third of the working population.

The second and third columns represent data from the New England states, minus Connecticut, before and after the mandate. The fourth and fifth columns represent Connecticut, before and after its mandate. Labor market variables are similar across New England, but Connecticut income is approximately 7 percent higher than the rest of the control states. We control for inflation, so the real income declines after the mandate, even though the nominal income is increasing. (See next page for Table 1)

Model

We estimate a simple "difference-in-difference" regression that captures the impact of the Connecticut mandate on two outcome variables of interest: annual hours worked at a job and annual income from wages.

Table 1: Summary Statistics

Geography	All State	New England Control	Connecticut		
Time period	All Years	Before Mandate	After Mandate	Before Mandate	After Mandate
Work hours in last 12 months	1709.64 (723.82)	1700.77 (724.39)	1718.03 (721.27)	1710.16 (726.62)	1725.57 (724.20)
Income in last 12 months (adj. for inflation)	46397.40 (42879.48)	45507.29 (41870.95)	45383.68 (41832.28)	49651.98 (46084.47)	48974.68 (45506.84)
Paid sick leave mandate	0.09 (0.29)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.00 (0.00)
Service Workers	0.34 (0.48)	0.34 (0.48)	0.35 (0.48)	0.34 (0.48)	0.34 (0.47)
Age	39.88 (13.49)	39.73 (13.43)	39.82 (13.66)	40.15 (13.33)	40.35 (13.46)
Male	0.49 (0.50)	0.49 (0.50)	0.48 (0.50)	0.49 (0.50)	0.49 (0.50)
White	0.82 (0.39)	0.85 (0.35)	0.83 (0.37)	0.75 (0.43)	0.72 (0.45)
Black	0.06 (0.24)	0.05 (0.21)	0.05 (0.22)	0.10 (0.30)	0.10 (0.30)
Hispanic	0.08 (0.27)	0.06 (0.24)	0.07 (0.25)	0.11 (0.32)	0.13 (0.34)
Non-citizen	0.07 (0.25)	0.06 (0.24)	0.06 (0.24)	0.08 (0.27)	0.08 (0.28)
Married	0.50 (0.50)	0.51 (0.50)	0.49 (0.50)	0.51 (0.50)	0.50 (0.50)
Military Service	0.43 (0.49)	0.07 (0.25)	0.99 (0.08)	0.06 (0.24)	0.99 (0.07)
Child aged 0-5	0.04 (0.20)	0.04 (0.20)	0.04 (0.19)	0.04 (0.20)	0.04 (0.19)
Child aged 6-17	0.10 (0.30)	0.10 (0.30)	0.10 (0.30)	0.11 (0.32)	0.11 (0.31)
Children aged 0-5 and 6-17	0.03 (0.16)	0.03 (0.16)	0.02 (0.15)	0.03 (0.17)	0.03 (0.16)
No Children	0.33 (0.47)	0.33 (0.47)	0.33 (0.47)	0.31 (0.46)	0.32 (0.47)
Difficulty with English	0.06 (0.24)	0.06 (0.23)	0.06 (0.23)	0.07 (0.26)	0.07 (0.26)
No HS diploma	0.08 (0.26)	0.08 (0.27)	0.07 (0.25)	0.08 (0.28)	0.07 (0.26)
HS graduate/GED	0.24 (0.43)	0.24 (0.43)	0.24 (0.43)	0.25 (0.43)	0.24 (0.43)
Some college	0.31 (0.46)	0.31 (0.46)	0.31 (0.46)	0.31 (0.46)	0.30 (0.46)
College graduate	0.37 (0.48)	0.37 (0.48)	0.39 (0.49)	0.35 (0.48)	0.38 (0.49)
Observations	301,951	138,912	90,520	44,302	28,217

The model is:

$$OUTCOME_{ist} = \beta_0 + \beta_1 POST_{it} \cdot TREAT_{is} + \beta_2 POST_{it} + \beta_3 TREAT_{is} + \beta_4 X_i + \varepsilon_{ist}$$

Where $OUTCOME_{ist}$ is one of the labor market outcomes for individual i in state s in year t , $POST_{it} \cdot TREAT_{is}$ is the interaction term that captures the impact of Connecticut's paid sick leave mandate, and X_i is a set of worker characteristics. State-year trends are also included to attempt to control for possible macroeconomic impacts. The model is corrected for population weights and inflation measures, and standard errors are corrected for with non-nested two-way clustering at the state and year levels (Cameron, Gelbach, & Miller, 2011). This regression attempts to isolate the impact of the paid sick leave mandate in Connecticut.

To isolate what the paid sick leave law does, we must somehow "net out" the impact of the economy at large on the Connecticut labor market. This is most important for the U.S., as adoption of these laws may proceed gradually, one city or state at a time. A simple and intuitive way for us to look for only the impact of the law is to compare what happens in Connecticut to what happens in other states that "look like" Connecticut. The New England states serve the role of "controls." As the economy improves throughout 2010 – 2014, these states recover alongside Connecticut, yet do not enact paid sick leave mandates. Then, if we compare how the labor market outcomes of workers in Connecticut change across the years to how the labor market outcomes of workers in other New England states change, we can isolate the impact of the paid sick leave mandate.

Table 2: Impact of Connecticut's Sick Leave Law on Annual Hours Worked, By Age Groups

	All workers	Age 16 - 19	Age 20 – 34	Age 35 – 49	Age 50 – 64
$POST_{it} \cdot TREAT_{it}$	-9.99* (5.44)	27.59 (49.45)	-24.35*** (7.83)	-19.30* (9.87)	-4.82 (13.54)
$POST_{it}$	-27.17 (30.88)	-32.94 (86.98)	-117.51*** (14.30)	-0.68 (11.76)	58.10*** (10.85)
$TREAT_{it}$	5.84 (7.07)	-28.15 (18.32)	0.64 (9.81)	15.11** (6.96)	25.65** (11.60)
Observations	301,951	19,860	86,488	96,082	99,521

Notes: All specifications weighted and corrected for non-nested two-way clustering. Sample drawn from 2009- 2014 ACS using New England states, with 2012 data excluded. All specifications include controls for age, gender, education, race/ethnicity, citizenship, marital status, military service, children, difficulty with English and a constant term.

Table 3: Impact of Connecticut's Sick Leave Law on Annual Wage Income, By Age Groups

	All workers	Age 16 - 19	Age 20 – 34	Age 35 – 49	Age 50 – 64
$POST_{it} \cdot TREAT_{it}$	-502.27 (694.18)	138.27 (198.01)	-851.33** (432.23)	-204.67 (1317.61)	-1.01e+03 (1355.0887)
$POST_{it}$	6535.70*** (311.13)	360.47 (548.99)	-1.48e+03*** (316.19)	7493.24*** (917.86)	1.12e+04*** (1295.46)
$TREAT_{it}$	4133.89*** (1379.69)	-240.92* (124.94)	1854.51* (1009.26)	5251.73*** (1600.47)	6364.96*** (1784.81)
Observations	301,951	19,860	86,488	96,082	99,521

Notes: All specifications weighted and corrected for non-nested two-way clustering. Sample drawn from 2009- 2014 ACS using New England states, with 2012 data excluded. All specifications include controls for age, gender, education, race/ethnicity, citizenship, marital status, military service, children, difficulty with English and a constant term.

Results

Tables 2 and 3 showcase our main results. Table 2 estimates the impact of the law on hours worked, and Table 3 estimates the impact on annual income. Overall, hours do decrease by about 10 per year, but the impact is only weakly statistically significant. There is a lot of noise in the estimate, and it is difficult to say with much confidence that employers are cutting hours.^{vii} Income seems to decrease by about 500 dollars, but the estimate is too imprecise for us to assert anything about the average impact of the law on annual income. (See Table 2 and 3 on previous page).

However, the results change when we begin to look at the labor market impacts on different age groups. The second to fifth columns in the tables present the impact of the law on teens, young, middle-aged, and older workers. First, there is no impact on teenage employment. Hours and income seem to increase, but the estimates are too imprecise for us to conclude much. This is what we expect, as the sample size of working teens is relatively small, and many that work probably do so only part-time. On average, employed teens work less than 500 hours per year.^{viii} Since the law allows workers to accrue 1 hour of sick leave for every 40 hours worked, the average teen accrues just over one day a year.

More surprising is the fact that middle-aged and older workers seem largely unimpacted by the law as well. If workers in poorer health are assumed to be more inclined to use paid sick leave, then it stands to reason that from the employer's point of view, the largest increase in labor costs due to the law should be among older workers. Yet we see very little change in hours worked, and no impact at all on annual wage income for older workers.

It is young workers who seem to pay the heaviest price. As a result of the sick leave law, the average worker aged between 20 and 34 sees a reduction in hours worked by about 24. This is about a 1.5 percent reduction in hours. Annual income decreases by about 850 dollars, about a 3.3 percent reduction. These are non-trivial impacts, especially for many of these workers who are new to the labor market.

Discussion

Why do we observe these results? One explanation could be "moral hazard." If younger workers are more likely to abuse the benefit and treat sick days as vacation days (or equivalently, if employers believe younger workers are more likely to do this, even if they are not), then employers may perceive the cost of paid sick leave to be skewed to these workers. These workers may then, be forced to "pay" for these benefits, whether they use them or not.

Another reason could be differences in the value of labor. Even if younger and older workers are equally inclined to use paid sick days, older workers with more experience may be more highly valued by employers. Employers in general are loath to lay off more productive employees. This is one of the reasons that workers with college degrees or above tend to fare much better during economic downturns: firms experiencing profit declines tend to let go of employees with the lowest amount of value-added to the firm first. Then, if there is an across-the-board increase in labor costs that drive down profits due to this new benefit, it may make more sense to cut younger worker hours, as they add less to the firms' bottom lines.

Finally, even if younger and older workers are equally likely to take sick-days, and even if younger and older workers do not substantially differ in net productivity,

the law may impact younger workers more for another reason.^{ix} As we saw from figure 1, the Connecticut law disproportionately impacts young workers. Since about 70 percent of older workers already have paid sick leave through their jobs, the law will only matter for a smaller fraction of these workers. Firms that hire mostly older workers may not have to react to the law at all, since most voluntarily provided paid sick leave at least as generous as the mandate. Younger workers, on the other hand, are much more likely to “benefit” from the law, as only 30 to 40 percent of these workers are working at a job that currently offers its employees paid sick leave. Then, firms that hire younger workers are disproportionately affected, resulting in higher labor costs. This in turn, may lead to these firms cutting back on hours for these workers.

So which is it? It is possible that we are observing a combination of all three reasons. Whatever the reasons, the negative impact of a paid sick leave mandate seems to be small on average, but significant for younger workers.

What does this mean for these laws going forward? The results of this study on their own cannot definitively show that we should advocate for or push against these laws. We have only managed to account for the “cost” side of the law in this study. There may be arguments for the law on the “benefit” side, such as improvements to public health and easing the burden on parents. More generally, some workers may be willing to trade slight reductions in hours and income in exchange for paid sick days.

What this study does highlight, however, is that there does seem to be an increase in labor costs to employers, and the bulk of this cost falls on younger workers. Reduced work for these workers may have long-term consequences as experience and building up human capital through learning-on-the-job are especially important for these recent entrants into the workforce. Whether these workers are willing to bear the brunt of these costs, and whether it is fair to ask these workers to do so is a more complicated question that will require further research and nuanced public discussions.

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ⁱ See, for example, <https://www.dol.gov/featured/PaidLeave/get-the-facts-sicktime.pdf> and <https://www.washingtonpost.com/news/in-theory/wp/2016/05/13/is-donald-trump-right-about-paid-family-leave/>.

ⁱⁱ See, for example, http://hosted.ap.org/dynamicstories/U/US_AP_POLL_FAMILY_LEAVE?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT&CTME=2016-05-20-03-44-10, <https://www.hillaryclinton.com/issues/paid-leave/> and [http://feelthebern.org/bernie-sanders-on-workers-rights/#paid-family-and-sick-leave plus-vacation](http://feelthebern.org/bernie-sanders-on-workers-rights/#paid-family-and-sick-leave-plus-vacation).

ⁱⁱⁱ About two-thirds of all American workers already have paid sick leave benefits in the absence of any mandates.

^{iv} It is worth noting that Figure 1 is generated using the National Health Interview Survey (NHIS), which is not a part of the American Community Survey (ACS) that is used in the main empirical section. NHIS is used here because it is one of the few U.S. based surveys that explicitly asks if the employer provides paid sick leave benefits. Unfortunately, the public version of the NHIS only identifies workers at the “region” level, which does not allow the difference-in-difference approach.

^v We choose to focus on respondents who were employed dur-

ing the survey period. These are persons who respond that they worked at least (on average) 1 hour per week and earned an annual income of more than 100 dollars over the past year. We exclude respondents who report that they worked more than 60 hours (on average) over the entire year and earned a wage-income that is greater than 350,000 dollars (adjusted to 2014 dollars). Having shown in Ahn and Yelowitz 2015 that unemployment increases by a small amount, possibly due to both increase in labor costs and more entrants into the labor market, the focus here is on the experience of those workers who were able to find a job.

^{vi} See <http://data.bls.gov/pdq/SurveyOutputServlet>.

^{vii} It is, of course, possible that workers are opting to work less, although it is difficult to come up with a plausible explanation of why workers would behave in this way.

^{ix} Younger and older workers may conceivably yield the same per-person profit to the firm if older workers are already fully compensated for their productivity by firms.



Employment Policies

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