

August 2018

## The Parental Leave Deals: Taking a Closer Look at the Cost And Savings Assumptions

### Summary

In June, the de Blasio Administration announced two separate agreements with municipal labor unions that together will provide more than 200,000 city workers with paid parental leave. Both deals were presented as having no impact on the city's budget. The agreement with District Council 37 will not cost the city because the union has opted to join the state's paid family leave program, which covers not just childbirth and adoption but also other serious family health issues, and is funded with employee payroll deductions. The agreement with the United Federation of Teachers only provides parental leave and is funded by concessions—most notably the extension of the union's labor contract. Members will defer a future pay raise for 73 days, with the current contract now expiring in February.

IBO has compared the two new agreements with an earlier one that provided paid parental leave to city managers and nonunion employees, and closely examined the cost and savings assumptions underlying the deal with the teachers' union. Under the pact with the teachers, the city will provide the union's welfare fund, which typically offers supplemental benefits such as dental and vision care, with nearly \$51 million annually. Parental leave benefits will be administered and paid by the union. Among our findings:

- IBO estimates that under the deal with the United Federation of Teachers cost and savings will not be equal. We project that in the first year deferral of raises will save the city more than \$45 million while the de Blasio Administration estimates the delay will save about \$36 million.
- We agree with the estimates by the Mayor's office that pension and other fringe benefit savings tied to the agreement will save the city about \$15 million annually.
- While the de Blasio Administration projects the cost of parental leave for teachers' union members will be about \$51 million a year, we estimate the annual cost will be about \$46 million.
- As a result of our differing savings and cost projections, IBO estimates the city will garner over \$9 million more in savings than necessary to pay for the teachers' parental leave and the union's welfare fund will accrue a surplus of more than \$5 million.

The cost to the city for parental leave is fixed under the terms with the teachers' union, and effectively zero for the deal with District Council 37. But how such a large workforce responds may differ substantially from expected outcomes. Strong family leave policies have been shown to improve employee morale and retention as well as provide more intangible benefits to new parents. The city may have to balance the pluses with the need to hire additional personnel if utilization rates are higher than anticipated.



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## Expanding Paid Parental Leave

Within two weeks of adopting the first budget of his second term, Mayor de Blasio announced two major agreements with the city's organized labor force. On Wednesday, June 20th, the Mayor and Department of Education announced a deal to extend paid parental leave (PPL) to all members of the United Federation of Teachers (UFT).<sup>1</sup> This new benefit resembles a similar program provided for the city's non-union managerial workforce in late 2015—both programs offer six weeks of paid leave to covered employees after childbirth, adoption, or foster placement—although the UFT's deal has additional restrictions and features modified to accommodate a school-based workforce. Notably, the benefits will be paid through the UFT's welfare fund, which provides dental, vision, and other benefits, rather than through the city's payroll system with the city making an annual payment to the welfare fund to cover the benefits as well as operating expenses. The agreement with the teachers union serves as a supplemental memorandum of agreement to the existing nine year UFT contract, scheduled to expire in late November 2018.

The following week, District Council 37 (DC 37), the city's largest nonpedagogical civilian labor union, announced a 44-month contract settlement covering September 2017 through May 2021. The settlement provides DC 37-represented titles with a 2.0 percent raise in fiscal year 2018 retroactive to September 2017, and 2.25 percent and 3.0 percent raises in fiscal years 2019 and 2020, respectively. The wage increases will be funded through a combination of existing funds in the reserve fund earmarked for labor settlements, planned health care cost reductions, and new appropriations.

As part of their contract settlement, DC 37 members will also receive paid family leave benefits, but rather than a parental leave system modeled after the one provided to the managers or UFT, District Council 37 elected to opt in to New York State's Paid Family Leave Policy. The state policy more closely models the federal Family Medical Leave Act, allowing workers to take leave after not just a childbirth or adoption/foster event, but also in the event of a serious personal or family member illness.

For both the UFT and DC 37, the city has designed the family leave program to be effectively budget-neutral, with labor concessions paying for any additional costs the city will incur in delivering the new benefit. The UFT's decision to select the city's parental-only leave likely reflects the union's generally younger, more female membership,

while DC 37's more gender-balanced and older workforce preferred a benefit intended to cover a broader array of family care scenarios.

IBO estimates that the UFT's parental leave benefit will require \$45.6 million to be paid out each year by the UFT Welfare Fund, a figure that includes the cost of managing the program. With the city providing \$50.8 million to the UFT, we project that the welfare fund will have \$5.2 million left over after the first year, surplus funds that can only be used for parental leave. The UFT's members paid for this benefit by delaying a pay increase for two and a half months and by structuring the PPL benefit in a way that reduces the city's pension obligation. The de Blasio Administration estimates that delaying the pay increase will save the city \$36.0 million and values the pension savings at \$14.8 million—combined savings equal to the \$50.8 million the city provided the UFT. Based on the pattern of wage increases set by the new DC 37 contract, however, IBO projects that delaying the pay increase will save the city \$45.5 million, which—together with the pension and other fringe benefit savings—means that the city will save a total of \$60.3 million. (Note: do not confuse the \$45.5 million IBO estimates the city saves from delaying the pay increase with the \$45.6 million we estimate will be paid out in benefits.) After subtracting the city's \$50.8 million payment to the welfare fund, the city would retain a surplus of \$9.5 million.

## What the Unions Got

The UFT's paid parental leave plan is modeled after the PPL provided to the city's 20,000 managers and non-union workers, but in some particular areas the two programs diverge. (A summary of the differences between the UFT, DC 37, and managerial PPL plans is presented on page 3.) UFT-represented employees using the PPL program may choose to either take advantage of the existing policy or use the new parental leave process, providing they have at least 12 months of active service. Under existing policy, birth mothers can bank accumulated sick leave, known as the Cumulative Absence Reserve (CAR), which can be used for up to either six or eight weeks following the birth of a child, depending on whether the birth was vaginal or caesarean. Under the new parental leave policy, UFT members are eligible to receive PPL for all birth events and any adoption/foster events for children under age 6, and are entitled to receive the equivalent of six weeks of pay.

The new PPL must be used continuously from the birth event, or after the use of any CAR the mother chooses to expend. Nonbirth parents must use their PPL from the date

<b>Comparison of City Leave Policies</b>			
	<b>Managers</b>	<b>United Federation of Teachers</b>	<b>District Council 37</b>
<b>Leave Type</b>	Parental Leave Only	Parental Leave Only	Family Leave
<b>Adoption/Foster</b>	Under 18	Under 6	Under 18
<b>Duration of Leave</b>	6 weeks	6 weeks. If both parents are UFT, must divide time between them.	2019–10 weeks 2021–12 weeks
<b>Benefit Level</b>	100% of pay	Likely 100% of pay, determined by UFT	2019–55% of SAWW* 2020–60% of SAWW 2021–67% of SAWW
<b>Eligibility</b>	Immediately upon hire	After 12 months of employment, with 12 months of active status	After 26 weeks
<b>Usage Restrictions</b>	Any time within first three months after qualifying event, down to one hour	Must be used continuously from qualifying event; birth mothers may defer until conclusion of CAR days (up to 8 weeks).	Must be used continuously from qualifying event; can be used in conjunction with sick/annual leave.
<b>Frequency</b>	Every 12 months	Every 10 months	Every 12 months
<b>Paid/Unpaid Leave</b>	Paid by city	Unpaid–reimbursed by welfare fund	Unpaid–reimbursed by insurance
<b>Return to Work?</b>	Must return for 6 months or pay back benefit	Must return for 12 months or pay back benefit	No requirement to return
<b>How is it Funded?</b>	Loss of 2017 raise (0.47%), plus 2 vacation days for employees over 15 years of service	Contract extended (raises deferred) by 73 days. City will not fund pension benefits for PPL users.	Employee payroll deductions
SOURCES: Department of Citywide Administrative Services Personnel Services Bulletin 420-5; United Federation of Teachers Paid Parental Leave Agreement, 2018; New York State Department of Financial Services website NOTE: SAWW–The New York State average weekly wage is currently \$1,305.92, for an annual salary of \$67,907.84.			

*New York City Independent Budget Office*

of the event. In the case of adoption or foster placement, the PPL must be used immediately after the event. While their jobs are protected and health insurance is continued while on parental leave, a member’s time on PPL will not count towards their pension. When leave is completed, employees must return to work for at least 12 months, or else be required to repay the entire benefit.

In an instance where the parents are both UFT members, the agreement allows for the two members to use only six weeks of combined paid parental leave between them. Under this restriction, either a nonbirth parent would take six weeks concurrently with a birth parent taking CAR leave, or the two parents would split their six weeks of PPL. Based on a match of surnames, IBO estimates that roughly 750 UFT members are married to other current UFT members. This methodology likely understates the number of two-UFT-member couples because it does not include unmarried couples or married couples with different surnames. Conversely, the methodology likely overstates the number of two-UFT-member couples because it includes some who may be otherwise related and live in the same home. Thus, we project that 1 percent of UFT members are affected by this policy.

UFT members who take PPL will officially be on unpaid leave status and employees will be reimbursed through a

lump sum payment from the UFT’s welfare fund. The dollars needed to pay parental leave benefits are provided to the welfare fund by the city and can only be used to fund the benefits and to cover expenses associated with the program’s operation. Although the city will provide \$50.8 million to the UFT’s welfare fund this year, future payments will increase subject to collectively bargained across-the-board wage increases.

There are several important ways in which paid parental leave for city managers differs from the parental leave program negotiated with the UFT. Managers’ PPL is available immediately upon hire, with no restrictions on the age of a child being adopted or placed with a foster parent. Paid parental leave for managers can be used in increments of one hour for three months after the qualifying event, and is paid out just as an employee would be paid for sick or vacation leave. And to avoid having to repay the benefit, managers must return to work for at least six months after using their PPL.

### **Paying for Paid Parental Leave: The de Blasio Administration’s Estimates**

The city’s paid parental leave agreement with the UFT is structured to be self-financing; the city agrees to make an annual payment to the UFT to administer the benefit, and

## Managerial Leave Experience

Experience with the city's PPL program for managers and other non-union employees has shown that many beneficiaries do not use all of their eligible paid leave. IBO looked at the duration of leave taken by the 477 non-union employees who opted to take paid parental leave from 2015 through 2017, accounting for any employees who may have continued that leave into 2018. While over half (264) took the full six weeks of paid leave, the average leave taken was just under five weeks. Female employees were slightly more likely to take paid parental leave than male employees and among those taking leave, females tended to be out longer than males.

in return is "paid back" in anticipated savings. The first year payment will be \$50.8 million, with payments in future years adjusted to account for changes in salary. The most straightforward payback comes in the form of delayed raises for all UFT members; by signing this agreement, the UFT has extended its existing 2009-2018 contract by 73 days, meaning that the earliest that employees can expect a raise is now February 2019. The Mayor's office values the extension of the existing contract to be \$36.0 million, based on the 1.56 percent annual average increase in salaries and related pension and fringe benefit costs under the current contract.

This funding mechanism is similar to the one used to finance the managers' PPL, where the managers' scheduled 0.47 percent raise in 2017 was canceled, and two vacation days were taken from longer-serving employees. IBO previously projected that due to lower-than-expected utilization rates, the managerial PPL program will likely be a net fiscal benefit to the city, at least for the early years of the program.

Additional city savings are derived from the structure of the UFT's paid parental leave, which is different than traditional sick or vacation leave. Because the UFT's parental leave is effectively unpaid disability leave, these weeks do not count towards an employee's retirement totals, thus reducing the city's pension obligation for those who take the benefit. Based on the assumption that about 4,000 UFT members will use the benefit each year, the Mayor's office values the savings at \$14.8 million annually.

DC 37's family leave benefit has a more straightforward price tag for the city: \$0. New York State's family leave law

pays for itself through a payroll deduction on all covered employees and will likely be operated through the city's existing disability insurance provider. This leave program is more generous in the amount of time allotted: 10 weeks in 2019 and 12 weeks thereafter. But the program provides only a fraction of the employee's salary, 55 percent in the first year increasing to 67 percent by 2021, with the payment capped at the state's average weekly wage (SAWW). The payroll deduction, currently 0.126 percent of salary up to the SAWW—for a maximum deduction of \$85.56 in 2018—will increase as the benefit level increases.

DC 37's full-time membership has an average salary of \$57,422, while the current SAWW is \$67,908. As a result, on average, DC 37 members will receive the full benefit as described, with higher earners receiving a maximum reimbursement of about \$7,180 for 10 weeks of leave in 2019 rising to \$10,500 for 12 weeks as the program reaches maturity in 2021 and beyond. In the succeeding years payments will increase, as the SAWW is updated annually.

## The Cost of the Benefits: IBO's Estimates

IBO projects that the cost of providing UFT members with paid parental leave, including the cost of managing the program, will total \$45.6 million in the first year of the benefit—about \$5 million less than the \$50.8 million the city is providing the UFT Welfare Fund. If IBO's estimate is correct, the welfare fund will have an annual surplus.

Based on the age distribution of current UFT employees as reported in the city's payroll management system and IBO's estimate of the share of male and female UFT employees of childbearing age, we project that UFT members will experience approximately 4,900 qualifying events annually, where qualifying events include births, adoptions, and foster care placements. IBO assumes that PPL will not be used by women over 49 years of age and men over 54 and that 100 adoption and foster care events occur each year.<sup>2</sup> However, because of policies specific to the UFT's paid parental leave agreement, the usage of PPL will be less than 100 percent.

Teachers acquire sick leave at a rate of 10 days per school year, and can bank that time through their Cumulative Absence Reserve. Under the current system, after their sick leave is exhausted, teachers are able to borrow future sick days and take advantage of a one-month grace period of unpaid leave while remaining on the city payroll. As discussed above, under the UFT's paid parental leave policy, when a mother gives birth, she is allowed to use her

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CAR time for up to six weeks or eight weeks, depending on the type of delivery, and she cannot borrow future sick days. CAR days must be used before a mother can begin using the parental leave benefit.

Because most UFT members work on a 10-month schedule, members having a child between mid-May and mid-July with either no CAR days or less than six or eight weeks of available CAR will be unable to fully use the parental leave benefit. Nonbirth parents and those adopting or fostering children will not be able to use their CAR to delay the usage of their PPL, which begins the day of the qualifying event. Regardless of how many CAR days a member has, assuming a random distribution of births throughout the year, that member has a 30 percent chance of the birth occurring on a day where they would be eligible for either reduced or no parental leave. For this reason, IBO estimates that total PPL utilization rates will be approximately 83 percent of all PPL days available. At this usage rate, and an average base school year salary of \$69,500 for eligible full-time UFT employees—including paraprofessionals—of childbearing age, we project that an equivalent of 4,065 full six-week qualifying events (83 percent of 4,900) will occur for a cost of \$44.5 million annually.<sup>3</sup>

Based on IBO’s estimate of the average salary for UFT employees of childbearing age, after paying for benefits in the first year, the UFT Welfare Fund would still have at least \$6.2 million (12.2 percent) left over from the \$50.8 million transfer from the city to cover the cost of managing the program. The UFT’s welfare fund currently processes disability claims internally, and intends to continue this practice for PPL. The union projects that the annual cost of program management will be \$1 million. According to the agreement signed by the city, the Department of Education, and UFT leadership, the \$50.8 million contributed by the city must be used “solely for the administration of the parental leave program”—a restriction that would also apply to any surpluses that may occur.

The cost of paying salaries and benefits to new parents is one of two components of the cost to the city of providing paid parental leave: the other is the cost of filling positions while employees are out for extended periods. Before the advent of paid parental leave, principals routinely replaced teachers and paraprofessionals who were out for extended absences—including teachers becoming new parents—with long-term substitutes, members of the reserve teacher pool, and other professionals paid on a per diem (daily) basis.

Because UFT members will not begin taking paid parental leave until September 2018, it is too soon to directly measure the impact of this new benefit on the duration of leave that members take following a birth, adoption, or foster placement. When estimating outcomes, the city assumed that the new benefit would result in no behavioral change, and members would on average take the same amount of leave as was taken before PPL was available. But looking back at how the city’s managerial employees responded to the introduction of paid parental leave in 2015 and comparing employees who took PPL with similar employees who had taken advantage of the Family and Medical Leave Act in previous years, IBO found a small but noticeable increase in total leave of all types used. Assuming that DOE will largely use per diem employees for replacing pedagogical positions and overtime for nonpedagogical titles, IBO estimates that each additional week of replacement would cost the department \$1.4 million annually.<sup>4</sup>

### **Pattern Bargaining and Future Settlements**

New York City has historically engaged in “pattern bargaining,” meaning that the first union to settle sets a pattern of wage increases for the remaining unions. There are often separate patterns for civilians and uniformed employees, with the UFT usually following the civilian pattern. In the last round of bargaining, as in the current round, DC 37 was the first large nonpedagogical civilian union to reach a wage settlement with the city. It is likely that settlements with other civilian unions will mirror the 44-month long DC 37 settlement, providing for annual wage increases of 2.0 percent, 2.25 percent and 3.0 percent, with eight additional months without a raise.

The UFT’s parental leave program will be financed primarily by deferring an update to teacher salary schedules for 73 days, which the Mayor’s office has estimated will generate \$36.0 million of savings. (The remaining \$14.8 million in anticipated savings result from treating the leave as a disability.) The de Blasio Administration based its valuation of deferring the UFT’s contract on the “fully-loaded” cost of a raise, including not only the cost of wages but also additional fringe benefit costs such as increased pension contributions and employment taxes. The annual average wage increase in the last UFT contract, 1.56 percent, was used to estimate the cost of the deferral.<sup>5</sup>

Given that the recent DC 37 contract settlement establishes a pattern of 1.97 percent annual wage increases for the duration of its contract, it is reasonable

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to assume that the UFT will use this new information to achieve a similar wage pattern in their contract. If UFT members receive a 1.97 percent average wage increase in each year of their new contract instead of the 1.56 percent increase used by the Mayor's office in its calculations, the savings to the city would be greater **than originally assumed**.<sup>6</sup> Because the cost of wage-sensitive fringe benefits increase at the same rate as salary increases, a 1.97 percent wage increase for the UFT would result in \$45.5 million savings from wage and fringe benefits for all UFT employees, \$9.4 million more than the \$36.0 million savings the city estimated upon adoption of the agreement.

### Outstanding Questions

For DC 37, the level of benefit is explicitly described by state law as being at least as generous as provided for in statute; employers have the option of extending more generous coverage, but no obligation to do so. The UFT's situation is less clear. The memorandum of agreement signed by the de Blasio Administration and union leadership says that "the UFT will provide, at its discretion, a benefit to these employees through its Welfare Fund." Though the official press release declared that teachers can expect a benefit equivalent to their take home pay, there is no contractual guarantee that UFT will maintain this benefit level should the process prove more expensive than expected. However, the UFT maintains that it intends to make its membership whole, providing a benefit equal to 100 percent of members' base salary.

There is also uncertainty as to the breakdown of the savings not attributed to the deferral of the UFT contract. The city has stated that half of this \$14.8 million in savings is attributable to lower pension costs. If that is the case, then the remainder of the savings result from other details of the plan, like the elimination of borrowing sick days and use of the grace period, which the city expects will result in personnel savings. The magnitude of these savings is difficult to forecast accurately until the workforce responds to the new benefit.

### Forecasting the Effects

The de Blasio Administration and UFT have stated publicly that paid parental leave would cost \$50.8 million in benefits and administrative expenses, funded through UFT members' concessions on wages and fringe benefits. Based on our estimates, IBO projects that this new policy will not be cost-neutral. We project that the city will accumulate \$9.5 million of savings annually while the UFT will accrue a surplus of \$5.2 million a year in its welfare fund. Meanwhile the union membership, through a deferral of their contract, will have given up \$45.5 million in wage and fringe benefits. The cost of the salary deferrals are fixed, and will only change in proportion to any shifts in hiring or layoffs among UFT members.

The bottom line, whether the savings attributable to the program are at least as great as the cost of providing the benefits, will depend on benefit utilization matching projections. The existing research on the effects of new paid leave on leave-taking behavior, not to mention family planning decision-making, is still emerging as more states and municipalities establish the benefit. Any significant departure from expected birth rates, employee salaries, or length of leave could necessitate a return to the collective bargaining table.

Estimation aside, these family leave settlements represent a significant unknown for the city. Within the span of two weeks, over half of the city's workforce was provided with a substantial new benefit. Though the city's cost is fixed in the case of the UFT, and effectively zero for DC 37, how a workforce hundreds of thousands strong responds may differ substantially from expected outcomes. Strong family leave policies have been shown to improve employee morale and retention, as well as provide more intangible benefits to new parents. The city may need to weigh these effects against the possible need to hire additional personnel if utilization rates are higher than anticipated.

*Report prepared by Robert Callahan*

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## Endnotes

<sup>1</sup>“Members” includes both dues paying union members and nonmember employees in civil service titles represented by the UFT.

<sup>2</sup>IBO’s estimates of childbearing age are based on New York Department of Health’s 2015 birth rates for the female population and the U.S. Center for Disease Control’s 2015 birth rates for the male population nationwide. Our estimate of foster and adoption events are based on Administration for Children’s Services foster placement rates and U.S. annual adoption rates.

<sup>3</sup>IBO’s estimate of the average salary of full-time UFT employees of childbearing age—\$69,500—is well below the de Blasio Administration’s estimate of \$81,000. The Mayor’s estimate is based on a review of the salaries of UFT employees who actually used parental leave over the past five years; IBO requested but did not receive the data behind this study. This salary

is paid over 12 months, but earned over the approximately 10 months of a school year. Daily rates are calculated according to this “10-month” salary. <sup>4</sup>Other than occasional substitutes, those covering long-term substitute assignments, are paid 1/200 of the lowest schedule of a teacher’s salary per day of work; as of June 2018, this amount is \$283.55/day. Paraprofessionals were assigned a rate of \$100/day. For nonpedagogical UFT titles, IBO assumed that replacements would be paid overtime at time and a half. <sup>5</sup>At the time the UFT and the de Blasio Administration reached agreement on paid parental leave, the DC 37 contract had not yet been settled. The average salary increase used to estimate the value of deferring UFT’s contract was based on the pattern of wage increases existing at that point in time. <sup>6</sup>UFT’s June 20, 2018 press release: <http://www.uft.org/press-releases/uft-doe-announce-paid-parental-leave-policy>

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