



Oct. 3, 2011

Costs and benefits of paid sick leave: reviewing the research

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On Nov. 1, Denver residents will vote on a proposal that would require employers to provide paid sick leave for their employees. Under the proposed ordinance, Initiative 300, employees would earn an hour of sick time for every 30 hours worked, amounting to about nine days per year for full-time employees. For businesses with fewer than 10 employees, sick days would be capped at 40 hours, or five days per year. Paid sick leave would also be available for employees to care for a sick family member in need of medical care or to seek legal assistance or secure alternative accommodations in cases of domestic abuse.

Proponents say this is an important public health and workers' rights issue. They point to health risks and the hardships for workers who have no access to paid sick leave. Opponents say Initiative 300 will increase costs for Denver businesses and hurt their competitiveness with businesses in surrounding communities, causing a loss of jobs in Denver.

San Francisco (2007) and Washington, D.C., (2008) have had paid-sick laws on their books for several years. Voters in Milwaukee approved a paid sick leave proposal in 2008, but the Wisconsin Legislature overturned their decision. The Philadelphia City Council passed a similar law in June, but it was vetoed by the mayor. Seattle's City Council passed and the mayor signed a measure this month; it will take effect next September. Connecticut this year became the only state in the country to pass a law requiring employers to provide paid sick days. Several state legislatures, including Colorado, Georgia and Massachusetts, have considered similar proposals.

This report examines and analyzes existing research and data regarding paid sick leave, with particular emphasis on the experience of San Francisco and Washington, D.C. It focuses on public health issues, such as the spread of diseases to co-workers and customers, and on the economic effects of paid sick

leave, including the effect on jobs and productivity.

In sum, the data suggest that the direct costs to businesses of a paid-sick-leave law are relatively small and that they are mitigated in whole or in part by indirect savings due to increased worker productivity and lower employee turnover. The data also strongly support the argument that paid sick leave results in improved public health and reduced overall costs to the health care system.

PAID SICK LEAVE AND WHO LACKS IT

Paid sick leave ensures employees job security and stable income during absences from work due to illness or injury that prevent performance of duties. Paid sick leave can also cover situations related to the illness or injury of an immediate family member that requires direct care by the employee. In some cases, including the proposed Denver ordinance, paid sick leave would be available to employees if they need to seek legal assistance or need to secure alternative accommodation due to domestic abuse.

An analysis of U.S. Bureau of Labor Statistics data by the Institute for Women's Policy Research (IWPR) reveals that nationally more than 44 million workers



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have no paid sick leave and risk losing wages or their jobs if they take time off. More than 40 percent of all private-sector workers and 79 percent of low-income workers have no paid sick leave.¹ Research shows that women, particularly minorities, are overrepresented in part-time and low-wage positions such as waitresses, cashiers, nurses and home health aides, and those jobs are least likely to offer benefits such as paid sick leave.² According to IWPR, 47 percent of women working in the private sector have no paid sick days, and the number increases to 57 percent when the focus is on the ten largest low-wage occupations.³

Colorado

In a state-by-state analysis of paid sick leave for private-sector employees, IWPR finds that access to paid sick leave varies by industry and occupation.⁴ Estimates from IWPR find that 41 percent of all private-sector employees (739,570) in Colorado do not have paid sick days. Workers in the Sales and Food Preparation and Serving occupations are the most likely not to have paid sick leave (Chart 1).

Denver

Access to paid sick leave in Denver also tends to vary based on industry and occupation. We estimate that 41 percent (107,407) of all private-sector employees in Denver do not have paid sick days. Workers in the Food Preparation and Serving occupation category are the most likely not to have paid sick leave. Chart 2 shows access to paid sick leave in Denver using 2010 data on employment by occupation. This is the most recent data we have on employment by occupation.

Because minorities are over-represented in industries such as construction, accommodation and food service, and other service industry jobs that rarely provide paid sick leave, they are less likely to have access to paid sick days. Chart 3 shows the percentage of Denver workers by race and their access to paid sick leave.

EFFECTS ON PUBLIC HEALTH AND HEALTH CARE COSTS

Many adults must balance responsibilities of work and home. However, when sick, some workers have to choose between going to work or seeking medical attention and losing pay or sometimes even their jobs. They forgo their earnings if they stay home to care for their own health or that of a sick child.

Research shows that lack of paid sick leave significantly affects the well-being of employees as well as the cost of doing business for employers. Paid sick leave provides workers with an opportunity to regain their health and return to full productivity at work.

Chart 1: Access to paid sick days among private-sector employees in Colorado

(% numbers are for workers without paid sick days)

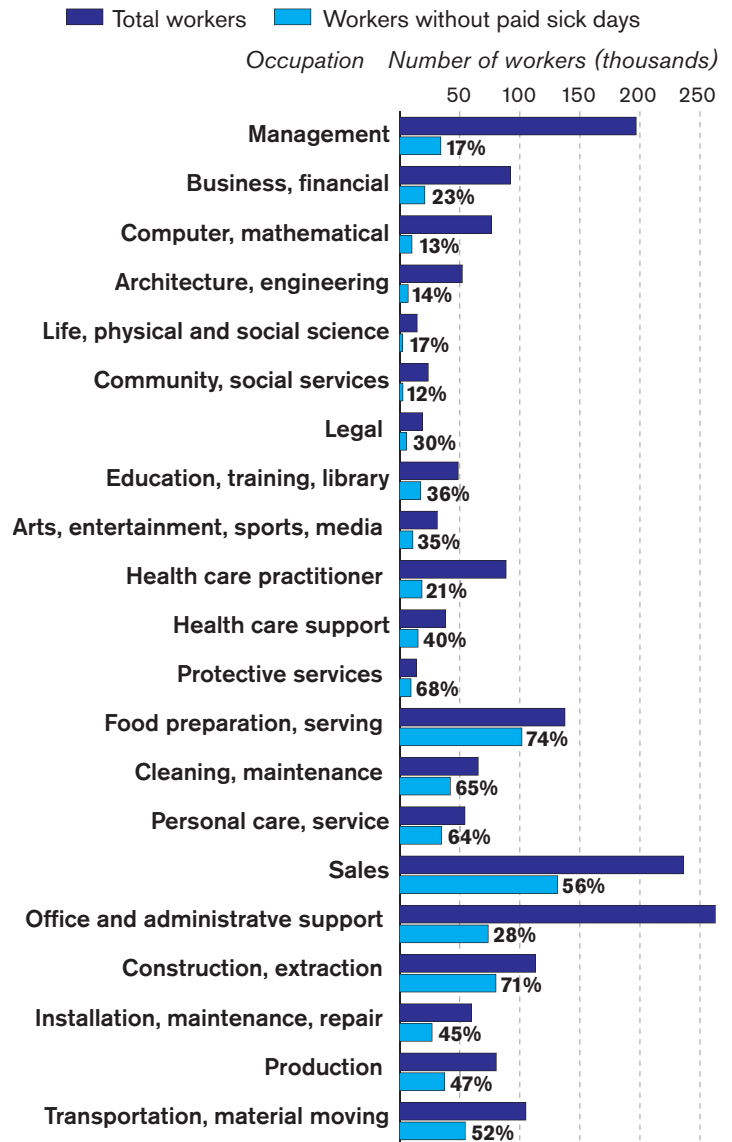


Chart created by Bell Policy Center using 2010 data from the Institute for Women's Policy Research

Workers who take paid sick leave recover faster and are less likely to infect their workplaces or the public, which may reduce overall health-care-related expenditures.⁵ Access to paid sick leave reduces the need for workers to take unauthorized time off work, which can lead to their being fired. Some low-income workers who lose jobs for staying home when ill may be forced to turn to public assistance, imposing additional costs on society.⁶

When workers are unable to take time off while sick, they risk spreading disease to their co-workers and customers and reducing the overall productivity of the businesses that employ them. Workers who lack paid sick leave may also send their sick children to child care



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Chart 2: Access to paid sick days among private-sector employees in Denver

(% numbers are for workers without paid sick days)

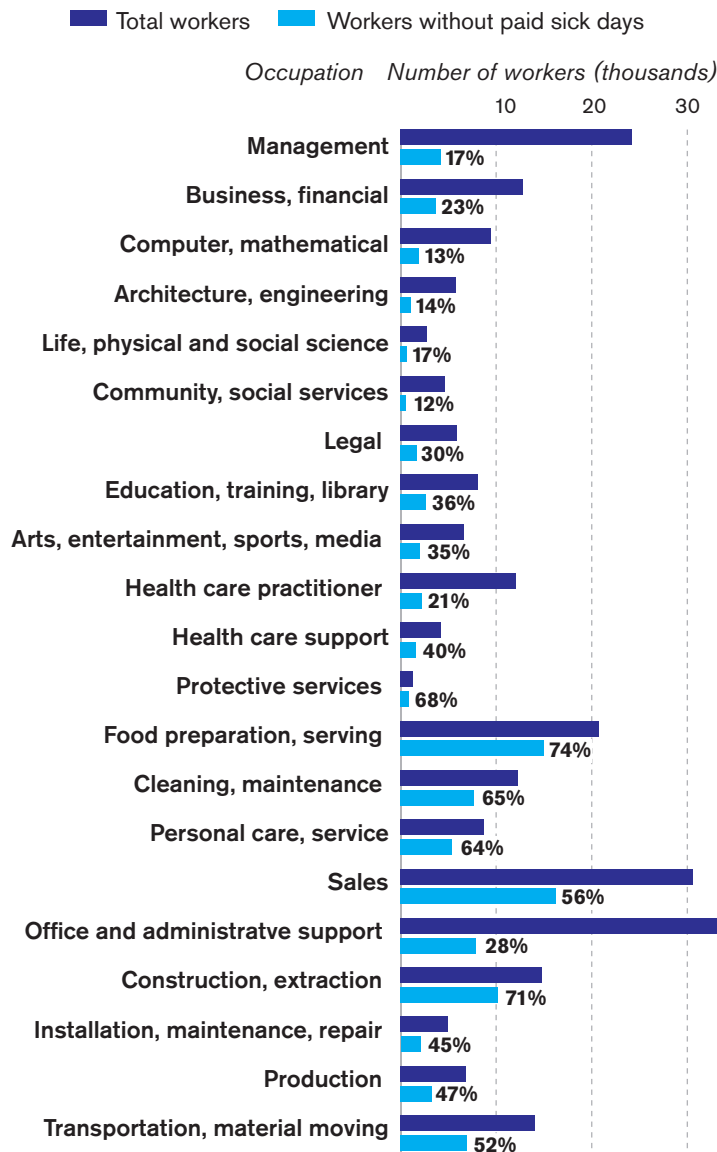
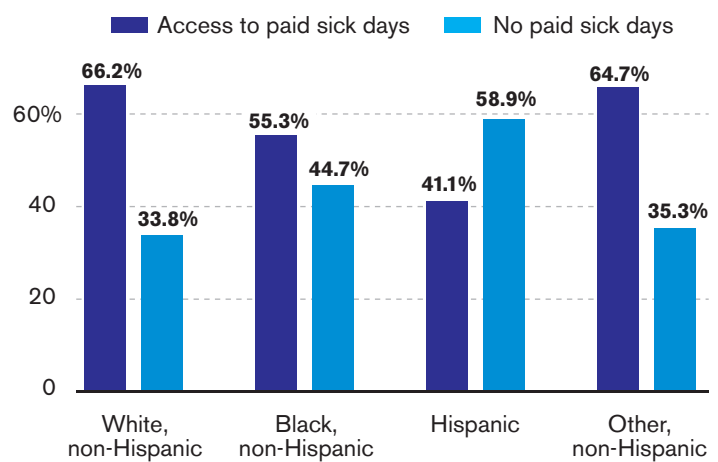


Chart created by Bell Policy Center using 2010 data from the Institute for Women's Policy Research

or school, making it easier to transmit contagious diseases to other children.⁷

Additionally, workers who are unable to take time off when they are sick often end up seeking medical care at emergency rooms (ER) for conditions that could have been avoided had they taken time to rest and recuperate. Even when workers have insurance coverage, their inability to take time off work for a doctor's appointment makes them more likely to visit the ER, which adds to the cost of health care because ER visits are often five times costlier than the cost of receiving primary care.⁸

Chart 3: Access to paid sick days in Denver, by race



Source: Institute for Women's Policy Research, analysis of 2008-09 National Health Interview Survey

The H1N1 pandemic in 2009 brought attention to the need for all workers to have access to paid sick leave. Almost 26 million employed Americans may have been infected with H1N1, but only about 18 million employees took at least part of a week off in response.⁹ This implies that, despite recommendations from the Centers for Disease Control and Prevention that workers with the flu stay home,¹⁰ about 8 million employees took no time away from work while infected, posing a public health risk.¹¹

EFFECTS ON BUSINESS

Direct costs

Providing paid sick leave to employees who do not have it will increase compensation costs for employers. However, data from San Francisco and Washington, D.C., suggest these costs tend to be fairly minimal. Data also indicates paid sick leave tends to increase worker productivity and lower turnover rates, mitigating at least some of the direct costs of providing paid sick days.^{12, 13}

IWPR conducted surveys with 727 employers and 1,194 employees in a 2011 study of the effects of San Francisco's 2007 Paid Sick Leave Ordinance. It found that despite the availability of either five or nine sick days under the law, workers on average used only three paid sick days per year, with one-quarter of employees using no paid sick days.¹⁴

For a full-time worker without sick leave, providing five paid sick days would increase total compensation costs by about 2 percent (5 paid sick days/250 total work days = 2 percent). This is a one-time increase; once granted, the cost of paid sick leave becomes part of the



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base compensation costs. The 2 percent total assumes that all workers use all of their paid sick days, and again, the experience in San Francisco shows that, on average, workers used three days. Using the lower rate, the increase in compensation costs would be 1.2 percent. This is a rather minimal increase compared to the benefits derived from paid sick days.

The IWPR survey of San Francisco employers also found that 80 percent made no changes to employee compensation in response to the paid-sick-leave ordinance. For small employers with one to nine employees, 82 percent made no changes in compensation, while 63 percent of those in the accommodation and food service industry made no changes. Overall, 2.8 percent of firms decreased vacation time, 7.1 percent converted vacation to paid sick leave and 7.1 percent reduced raises or bonuses. These responses indicate that employers have been able to meet the paid-sick-leave requirements with limited affects on their operations.¹⁵

Productivity and turnover

Research also shows that firms that provide paid sick days tend to have lower turnover rates, lower recruitment and training costs, lower unnecessary absenteeism and a higher level of productivity than firms that do not offer this kind of benefit.¹⁶ Providing workers with access to paid sick leave generally improves the work environment and ensures a healthier workforce.¹⁷

If employers do not offer their workers paid time off for illnesses, many workers are compelled to continue working when they are sick. Research suggests that when workers are sick on the job, they risk injury to themselves and colleagues, and they risk spreading infectious diseases, which may result in reduced productivity.¹⁸

Researchers and businesses are devoting increased attention to identifying and quantifying the effects that showing up for work while sick – also known as presenteeism – have on productivity.

A study conducted at Cornell University's Institute for Health and Productivity Studies examined the costs to employers of providing care for the 10 health conditions with the highest direct medical expenses. They found that costs associated with presenteeism were, on average, as much as 60 percent higher than the combined costs of providing medical care, absenteeism and short-term disability. For example, the average annual per employee costs for medical care totaled \$72.07, absenteeism and short-term disability \$26.35 and presenteeism \$156.66.¹⁹

Two papers which reviewed more than 100 articles

related to the cost of presenteeism and absenteeism find that working while sick can be linked to “reduced work output, errors on the job and failure to meet company production standards.”^{20, 21} In fact, the costs in lost productivity due to being at work while suffering from some common health conditions far exceed the costs of medical care for those conditions.²²

A study conducted by faculty at the Harvard Medical School, in collaboration with Alere, a health care company, focused on the effects health conditions have on medical costs and health-related productivity costs such as absenteeism and presenteeism. It used data from four employers with a total of 57,000 employees. The study found that the costs of working while sick (presenteeism) were greater than the costs of absenteeism. In addition, for every \$1 companies paid for medical and pharmacy costs, they had \$2 to \$4 in health-related productivity costs. The authors conclude that “a healthier more productive workforce can drive greater profitability for employers as well as a healthier economy for our nation.”²³

In some cases, employees can be fired when they do not show up for work because they are sick. However, employee turnover is costly for businesses. Research shows that the cost of replacing an employee (recruitment process) is about 25 percent of the annual pay for hourly workers and much more for highly skilled employees.²⁴ Replacing a half-time employee earning \$9 per hour costs an employer \$2,340, while a full-time \$12-per-hour worker runs \$6,240.²⁵ If the full-time employee earning \$12 per hour used all five paid sick days in a year, the additional compensation cost would be \$480. This is significantly less than the cost of replacing the worker or the lost productivity caused by the worker coming to work sick.

A cost-benefit analysis of the recently passed paid-sick-leave law in Connecticut conducted by the IWPR showed that the average weekly cost of the law would be \$6.87 per worker, which is about 19 cents per hour worked. However, the same analysis projects businesses will save \$12.32 per worker primarily through reduced turnover and productivity gains, resulting in a net savings of \$5.46 per worker per week.²⁶

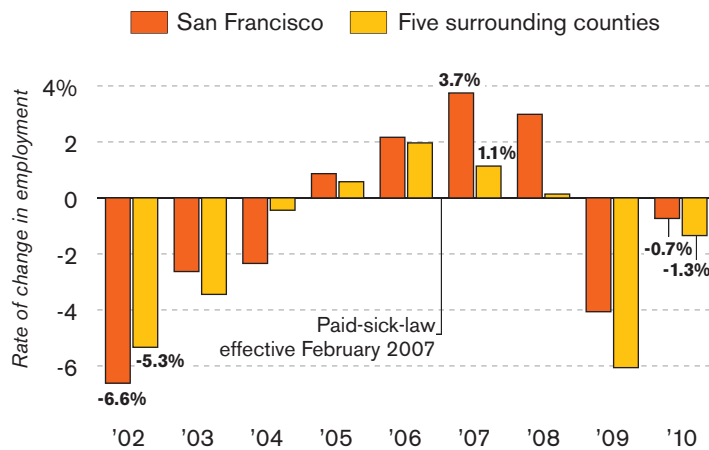
EFFECTS ON JOBS

Some opponents of paid-sick-leave laws argue they will raise employment costs and force employers either to layoff existing workers or hire fewer workers in the future. Another argument has been that employers in cities with paid sick leave laws will relocate to other communities in the metro area that do not have these provisions. However, data from other countries with paid sick leave policies²⁷ and the experience in San Francisco and Washington, D.C., do not show a



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Chart 4: Change in employment in San Francisco and surrounding counties, 2002-10



correlation between these policies and job loss.

A recent National Federation of Independent Business report argues that jobs may be lost in Denver if the law passes.²⁸ However, we believe the study has several significant flaws that call into question its findings. Its projection was based on estimates of a statewide proposal, not an ordinance that applies only to Denver. As a result the total number of jobs projected to be lost is wildly inflated.

More important, instead of using real-world data from San Francisco and Washington, D.C., the NFIB study relied on abstract modeling to make its projections. Upon review, we believe the model overstates the cost of complying with the law in three important ways: assuming all workers will use five leave days, when research shows that, on average, San Francisco workers used three days²⁹; overestimating administrative costs, which should be similar to dealing with existing overtime rules or Social Security requirements; and most significantly, making no allowance for business savings from lower turnover and increases in productivity.

Figures from the Bureau of Labor Statistics provide a broader look at the impact on employment. As is seen in Charts 4 and 7, job markets in both cities were stronger than in neighboring counties after implementation of paid-sick laws than in the preceding years.

A 2010 Drum Major Institute report found no evidence to suggest that the paid-sick-leave policy harmed job growth in San Francisco. In fact, its analysis suggests total employment increased by 3.5 percent between the first two quarters of 2006, immediately before the voters passed paid sick leave in November 2006, and the first two quarters of 2010, the latest period for which data is available. San Francisco's rate

Chart 5: Change in retail employment 2007-09, San Francisco and surrounding counties

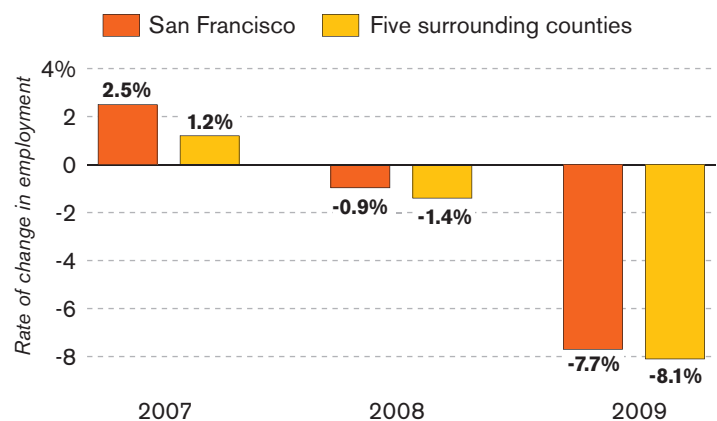
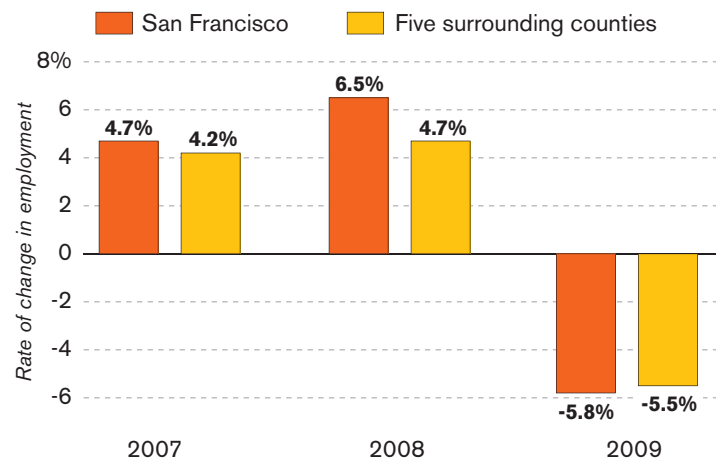


Chart 6: Change in accommodation, food service employment 2007-09, San Francisco and surrounding counties



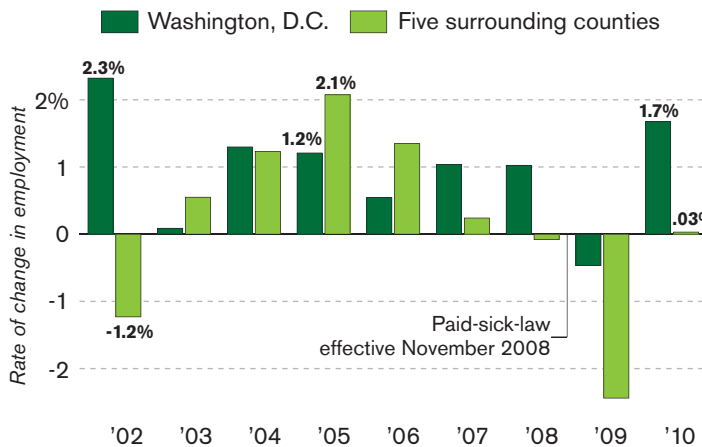
of job growth was slightly higher than that of neighboring counties, which grew at a 3.4 percent rate during the same period.³⁰ Employment in the retail and accommodation and food service sectors – two industries considered most likely to be affected by paid-sick-leave policies – was stronger in San Francisco than in neighboring counties. As shown in Charts 4, 5 and 6, employment in San Francisco has generally been stronger than in the surrounding counties.

The experience in Washington, D.C., has been similar. The district adopted a paid-sick-leave policy in March 2008 that became effective in November 2008. As Chart 7 shows, the overall rate of job growth has been stronger in Washington, D.C., from 2007 through 2010 than in the surrounding counties. In 2009, the district and the surrounding counties suffered job losses most likely resulting from the Great Recession. But the rate of loss was greater in the surrounding counties. As



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Chart 7: Change in employment 2002-10, Washington, D.C., and surrounding counties



Source: Bureau of Labor Statistics

job growth returned in 2010, it was stronger in the district than in the surrounding counties.

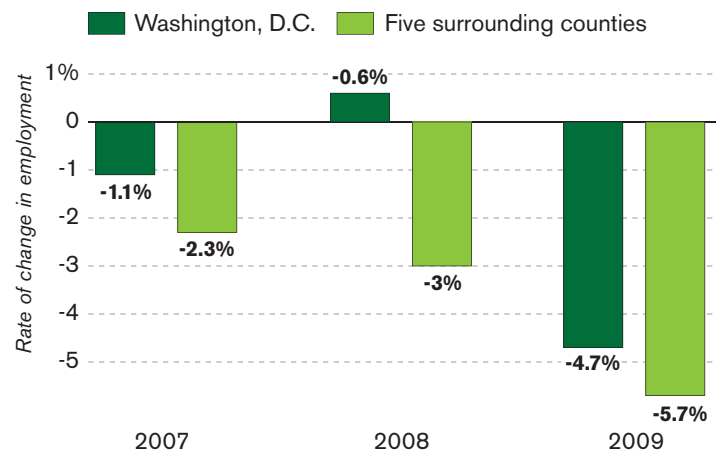
Washington, D.C., also had stronger job numbers in the retail sector in 2008 and 2009 than did its surrounding counties, although for 2009 this meant it lost retail jobs at a slower rate than did its neighboring counties. In the Accommodation and Food Services sector, the district had slower job growth in 2008 but stronger job growth in 2009 than did the surrounding counties (Charts 8 and 9). However, the district's law exempts "restaurant wait staff and bartenders who work for a combination of wages and tips" from its provisions.³¹ The exemption may affect the number of jobs created and lost in this industry, even though a number of jobs in this industry are not exempt from the sick-leave ordinance.

Clearly, the Great Recession has affected business performance and employment throughout the United States. The fact that both cities adopted paid-sick-leave proposals just before the recession hit makes it harder to isolate its effects from the broader economic downturn.

But if paid sick leave laws were as negative for businesses as the opponents claim, we should see these effects show up in the jobs data. However, both cities had either stronger job growth or lost jobs at a slower pace than their neighboring communities.

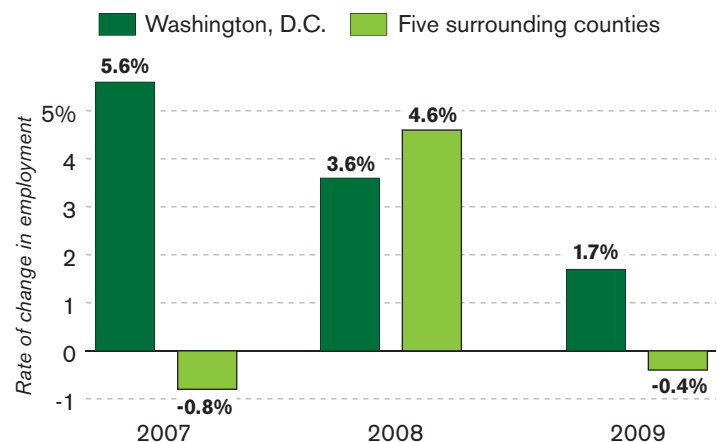
Furthermore, the Institute for Women's Policy Research found that 70 percent of San Francisco employers reported that the paid-sick-leave ordinance had no effect on their profitability. Only 14 percent reported a negative outcome. Two-thirds of employers support the paid-sick-leave ordinance and one-third is very supportive.³² Survey results also showed that minorities and low-wage workers most often benefitted from the law.³³

Chart 8: Change in retail employment 2007-09, Washington, D.C., and surrounding counties



Source: Census Bureau (County Business Patterns)

Chart 9: Change in accommodation, food service employment 2007-09, Washington, D.C., and surrounding counties



Source: Census Bureau (County Business Patterns)

Conclusion

The United States of America is the only country in the industrialized world that does not guarantee workers paid sick leave.³⁴ Most Americans agree that all states should have some basic labor standards. Throughout history, improvements to work environments have come about through legislation, including laws prohibiting child labor, requiring employers to pay a minimum wage and prohibiting discrimination against minorities and women.

In fact, a majority of Americans consider paid sick leave a very important workers' right. A 2010 public opinion poll conducted by the National Opinion Research Center at the University of Chicago for the Public Welfare Foundation found 75 percent of Americans believed employers should be required to



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provide paid sick days to workers. Additionally, 86 percent endorsed a plan that would require a minimum of seven paid sick days per year, and 70 percent backed a plan requiring a minimum of nine days.³⁵

Apart from individual Americans, many businesses already recognize the benefits of providing paid sick days to employees. An IWPR analysis found that most firms with 5,000 or more employees already voluntarily and routinely offer paid sick leave to their workers.³⁶ Research has found that paid sick leave benefits are positively related to employee satisfaction.³⁷ Increased levels of employee satisfaction have been found to be related to better business unit outcomes such as higher customer satisfaction, lower employee turnover and higher profits.³⁸

Research strongly supports the claim that providing paid sick days would improve the working conditions for a wide range of workers throughout Denver –

particularly many low-wage workers. It would also improve public health by reducing the number of times that sick employees interact with customers or handle their food. Multiple studies suggest that access to paid sick leave ensures a safer, healthier workplace with higher morale and productivity.

Evidence also shows the costs incurred by businesses in providing sick leave to workers are rather low. In fact, two cities, San Francisco and Washington, D.C., have shown that ordinances similar to Initiative 300 can be implemented without harming local businesses and costing jobs.

In considering Initiative 300 and the cost and benefits of a paid-sick-leave proposal for all Denver residents, we believe the minimal additional costs are greatly outweighed by improved public health and the benefits for workers, their families and society.

End notes

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