Social Security-Financed Parental Leave

- Increasing Passthrough Benefits
- GILTI Endangers Territoriality
- Whistleblower Incentives
Fiscal Implications of Social Security-Financed Parental Leave

by Michael R. Strain and Alan D. Viard

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In this article, Strain and Viard examine the recent proposal to allow workers to receive paid family leave through the Social Security system in exchange for reduced retirement benefits. They conclude that the proposal would have significant problems.

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In this article, we discuss the fiscal implications of a recent proposal to give workers an option to receive a parental leave benefit funded by the Social Security system if they accept an offsetting retirement benefit reduction with the same present discounted value. In principle, the proposal could avoid the harmful fiscal consequences that would arise from other parental leave proposals. If the proposal were implemented in its intended form, it would not require tax increases and it would not shift burdens to future generations. Under the further assumption that workers smooth their consumer spending over their lifetimes, there would be no reduction in national saving because the increase in the budget deficit would be offset by a rise in private saving.

We are skeptical, however, that things will work out quite that well. If workers do not perfectly smooth their consumer spending over their lifetimes, the proposal would reduce national saving even if it were implemented as intended. Indeed, the proposal’s supporters’ stated goal is that beneficiaries increase their consumer spending and reduce their labor earnings after welcoming a new child, implicitly assuming that workers do not perfectly smooth their consumer spending.

It is also likely that benefits for retirees would not be reduced to the full extent necessary to offset the costs of parental leave. In that case, the parental leave benefits claimed by each generation would result in tax increases for the next generation of workers. A future Congress might not actually enforce the requirement that workers who used parental leave receive lower retirement benefits than otherwise similar workers, especially if the Social Security system were restructured before the affected workers retired. More broadly, because the proposal would lower the average level of retirement benefits, Congress might choose more tax increases and fewer benefit cuts when addressing the program’s fiscal imbalance. Indeed, the costs of each generation’s parental leave benefits might be spread over many future generations if Congress allowed Social Security to keep the general revenue transfer that the proposal calls on the program to repay. The proposal is therefore likely to shift fiscal burdens to future generations and reduce national saving.
The parental leave proposal might also spur other proposals allowing workers to borrow against their Social Security retirement benefits. If such provisions became more widespread, harmful effects would be more likely to occur.

In summary, we are concerned that the proposal may shift fiscal burdens to future generations, reduce national saving, and undermine the retirement income function and the earmarked financing of the Social Security program.

**Background**

In 1993 President Bill Clinton signed the Family and Medical Leave Act (FMLA) into law.\(^1\) The FMLA requires many employers to provide qualifying employees with up to 12 weeks of unpaid leave to care for a new child, a seriously ill spouse, child, or parent, or an injured service member in the family; to recover from the employee’s own illness; or to deal with a family member’s deployment to the armed forces. The FMLA generally applies to employers with 50 or more employees and to employees who have been employed for at least one year and who have worked at least 1,250 hours in the last year. FMLA leave is unpaid, although employers must maintain employee benefits, including health insurance, during the leave.

California, New Jersey, New York, Rhode Island, Washington, and the District of Columbia have established paid parental leave programs. The benefits are generally paid by the state government from earmarked payroll taxes rather than by the worker’s employer. Rhode Island and New York require the employer to provide job protection for workers who take leave, but the other states do not require any job protection beyond that required by the FMLA.\(^2\)

Donald Trump supported paid parental leave during his 2016 presidential campaign, an initiative that was championed by his daughter Ivanka Trump. President Trump’s fiscal 2018 and fiscal 2019 budget plans would have required states to provide at least six weeks of paid parental leave as part of their unemployment insurance (UI) programs, with the costs ostensibly offset by reductions in improper payments, initiatives to help unemployed workers find jobs more quickly, and encouragement for states to maintain larger reserves in their UI trust fund accounts.\(^3\) The president’s proposal has not gained traction among Republicans, largely because of the perception that it would burden employers and force states to increase the employer payroll taxes that finance the UI program.

Section 13403 of the tax law commonly referred to as the Tax Cuts and Jobs Act (P.L. 115-97) enacted new section 45S, which provides a tax credit for some employers who offer paid family and medical leave. The credit is temporary, applying only to tax years beginning in 2018 or 2019. To claim the credit, an employer must offer at least two weeks of paid leave (beyond any paid leave mandated or paid for by state or local governments) to full-time employees who have worked for the employer for at least one year. The paid leave must replace at least 50 percent of normal wages. The credit may be claimed only for 12 weeks of paid leave for each qualified employee in each tax year. The credit rate ranges from 12.5 to 25 percent, depending on the replacement rate. The effectiveness of the credit cannot be assessed at this early date.

**The Social Security Parental Leave Proposal**

A proposal to allow workers to borrow against their future Social Security benefits to finance parental leave when they welcome a new child was recently introduced by Kristin Shapiro of the Independent Women’s Forum and further developed by Shapiro and our American Enterprise Institute (AEI) colleague Andrew Biggs.\(^4\) Because the proposal’s details are still being finalized, the description below reflects our

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understanding of the supporters’ current intent for its final version, based on their writings and on conversations with them. We also discuss some modifications that Congress might make before any bill is passed.

Under the proposal, a worker who welcomes a new child could opt to receive up to 12 weeks of paid parental leave, financed by the Social Security system. The benefit would be equal to the amount that the worker would receive in Social Security disability benefits if he had become disabled at that time. The worker would be eligible only if he had worked for at least four quarters, including at least two of the last four quarters. Under the disability benefit formula, workers with higher past earnings receive higher, but less than proportionately higher, monthly benefits. Workers with lower earnings would therefore receive higher replacement rates. Benefits would also depend on the worker’s age. Shapiro and Biggs present an example in which a 26-year-old with five years of work experience earning $31,100 per year could receive 12 weeks of paid leave, with a benefit of close to $300 per week, approximately 45 percent of the worker’s prior earnings.5

A worker who opts to receive paid leave would be required to accept a higher normal retirement age (NRA) for purposes of computing his Social Security retirement benefits. Under current law, the NRA is 67 for workers born in or after 1960.6 There would be a fixed benefit-reduction rate specifying the number of weeks increase in the NRA that each worker would be required to accept for each week of parental leave that he claimed. Supporters originally envisioned a benefit reduction rate around 0.5 (one week increase in the NRA for each two weeks of leave taken),7 but they have since concluded that a benefit reduction rate around 1 (one week increase in the NRA for each week of leave) would be required.8

Although the proposal is sometimes described as a delay of retirement benefits, it can also be viewed as a simple benefit reduction. Workers would remain free to start claiming benefits at any age between 62 and 70, but benefits at any given starting age would be lower. Workers who wanted to avoid any reduction in their monthly benefits would have to delay claiming benefits, but workers who were willing to accept lower monthly benefits would not need to delay.

Under current law, a worker who begins claiming benefits in the month that she reaches the NRA receives a monthly retirement benefit equal to her primary insurance amount, an amount linked to the worker’s lifetime earnings record. Workers claiming benefits before reaching the NRA (as early as age 62) have benefits lowered based on the number of months by which benefits are accelerated. The benefit reduction is 5/9 percent of the primary insurance amount per month of acceleration for up to 36 months of acceleration and 5/12 percent of the primary insurance amount for each month of acceleration beyond 36 months.9 Workers who wait to claim benefits after reaching the NRA (as late as age 70) have benefits raised by 2/3 percent of the primary insurance amount for each month of benefit delay.10

Consider a worker who begins drawing retirement benefits at age 62. Without parental leave, the worker receives a benefit equal to 70 percent of his primary insurance amount because the benefit is claimed 60 months before the NRA of 67.11 Now suppose that the worker claims about 12 weeks of parental leave and accepts an NRA of 67 years and 3 months. If the worker continues to

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5 Social Security payments to workers on leave would presumably be subject to the same individual income tax treatment as other Social Security benefits. As specified in section 86, benefits become partially taxable when modified adjusted gross income exceeds $25,000 ($32,000 for couples). The tax-favored nature of the benefits would enhance the effective replacement rate.


7 Shapiro, supra note 4; and Biggs and Shapiro, supra note 4.


9 42 U.S.C. section 402(q).

10 42 U.S.C. section 402(w).

11 The benefit is reduced by ((5/9 percent/month) x (36 months)) + ((5/12 percent/month) x (24 months)), which is 30 percent.
claim benefits at age 62, the benefit is 68.75 percent of the primary insurance amount because the benefit is claimed 63 months before the NRA. The benefit is therefore 1.8 percent lower than it otherwise would have been. Alternatively, if the worker begins drawing benefits at age 70, he would receive 124 percent of the primary insurance amount in the absence of parental leave (because the benefit is claimed 36 months after the NRA), but would receive 122 percent if the NRA had risen by three months because of parental leave (because the benefit would be claimed 33 months after the NRA), which is a 1.6 percent reduction.

Supporters intend that the benefit reduction rate be sufficient to offset the aggregate cost, in present discounted value, of the parental leave benefit (including the costs of leave for workers who die or become disabled before retirement and who would not experience any benefit reduction). The present-discounted-value computations use the interest rate at which the Social Security program is credited on its trust fund balance.

Although the costs are offset in present discounted value, the offset would not occur until decades later. Supporters envision that general revenue would be loaned to the Social Security system in the early decades when the program incurs net costs from the proposal and that the loan would be repaid to the general treasury in later decades when the program experiences net savings from the proposal. Shapiro estimated that the program would initially cost $7 billion per year, based on the assumption that 12 weeks of leave, with an average cost of $294 per week, would be taken by 2 million of the 8 million new parents each year. Under those assumptions, the 10-year cost would likely exceed $80 billion. Costs would rise if Congress made the benefit more generous, which Shapiro suggested Congress should consider doing after it sees how the program works.

It is not clear that the worker or the worker’s spouse would actually need to take leave from work to receive the benefit. If there were no such requirement, the benefit would be a simple cash payment for having a new child. The take-up rate would then likely be much higher, costs would be much larger, and the problems we describe below would be more significant. In this article, however, we assume that the benefit is confined, either by law or in practice, to parents who actually take leave from work.

The proposal is gaining traction. Sens. Marco Rubio, R-Fla., and Mike Lee, R-Utah, are working with Ivanka Trump and a bill is being drafted. Sen. Joni Ernst, R-Iowa, has also indicated support for the proposal. Yuval Levin, the editor of National Affairs, has lauded the proposal as “brilliant” and predicted that it will become the “consensus Republican family leave idea.” Our AEI colleague Ramesh Ponnuru has also written in support of the proposal, and our colleague Aparna Mathur has praised aspects of the proposal while raising concerns about others.

One Point on Labor Market Effects

Although we do not seek to address the broad paid leave debate in this article, we make one point (unrelated to tax and budget issues) relevant to the debate around this proposal. Despite the claims of some advocates, the proposal would impose additional burdens on employers. By subsidizing time away from work, the proposal would increase the number of

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12. The benefit is reduced by ((5/9 percent/month) x (36 months)) + ((5/12 percent/month) x (27 months)), which is 31.25 percent.

13. That interest rate is a floating rate tied to the average market yield on treasury debt that is not due or callable in the next four years, 42 U.S.C. section 401(d).

workers who claim leave and the number of weeks that they claim. In practice, therefore, the plan would impose new operational burdens and health insurance costs on employers who are subject to FMLA. Even FMLA-exempt companies would experience increased disruption of their operations, as workers would likely take relatively more unpaid time off financed through the program, even without the benefit of job protection. And the program could eventually be modified to extend FMLA to currently exempt employers, introducing significant additional burdens beyond a simple FMLA extension.

Some employers’ burdens would likely be shifted to women in the workforce. While parental leave would be available to both men and women, experience makes clear that parental leave will be disproportionately claimed by women. It is likely that some businesses will respond to the burdens of parental leave by hiring fewer less-educated women of child-bearing age, by offering women fewer hours of work per week than they would like, and by promoting fewer women into management roles.

In the remainder of this article, we assume that a parental leave benefit will be provided and focus on the fiscal effects of providing it through Social Security.

A Fiscal Comparison

The relevant question is how the Social Security parental leave proposal would compare with prominent alternatives, such as a tax-financed program or a deficit-financed program with no specified budgetary offsets. Tax increases pose work disincentives and other economic disincentives. A deficit-financed benefit would push the burden to future generations, which we would view as harmful because we believe that the current policy baseline imposes excessive burdens on future generations. A shift of fiscal burdens to future generations would also reduce national saving and investment. Moreover, if taxes were ultimately increased to service the debt, economic disincentives would be imposed at that time.

If everything went as planned, the Social Security parental leave benefit could be provided without incurring those fiscal harms. Those beneficial effects require, however, that the proposal be implemented as intended, with each cohort experiencing retirement benefit reductions to finance its use of parental leave and with no effect on congressional decisions about overall benefit levels.

Unfortunately, we have serious doubts about whether aggregate benefits would be reduced to offset each generation’s parental leave benefits. The proposal would then shift fiscal burdens from current generations to future generations, lower national saving and investment, and impose economic disincentives. For comparison, a tax-financed program would impose economic disincentives, but would not shift burdens to future generations.

The proposal’s potential advantages arise because it relies on spending cuts for financing. Although the most straightforward way to do that would be to cut spending contemporaneously with the benefit, the proposal avoids that path, perhaps to avoid the political difficulties posed by identifying another group of people who should pay for parents’ benefits. Instead, the proposal would reduce future retirement benefits for the workers who claim parental leave. The proposal calls for a laudable reorientation of federal spending away from middle-income retirees and toward young people.

The proposal would increase the deficit, as workers draw benefits today that would not be offset until decades later. Nevertheless, if implemented as intended, the proposal would not add to the long-run fiscal imbalance because it specifies a future financing source to offset the deficits. The general revenue loan to Social Security simply means that the initial deficits would show up in the general treasury portion of the budget rather than the Social Security portion; repayment of the loan means that the general treasury portion of the budget would reap the future savings.

Moreover, if implemented as intended, the proposal would not shift fiscal burdens to future generations. Instead, the proposal calls for each

\[22\] As discussed above, the state parental leave programs are generally financed by payroll taxes. A majority of the AEI-Brookings Working Group on Paid Family Leave recently recommended a benefit financed by payroll taxes, “Paid Medical and Family Leave,” supra note 2, at 24-30.
generation to pay its own way. Thus, the usual harmful consequences of budget deficits would not arise if workers smooth their consumer spending over their lifetimes. The consumption-smoothing assumption means that workers maintain a stable consumption path determined by their lifetime income (and the path of interest rates) despite volatility in year-by-year income.

Because the present discounted values of the parental leave benefit and the retirement benefit reduction would be equal, workers’ lifetime incomes would not change. Under the smooth-consumption assumption, workers’ consumer spending would not change at any point in their lives. Workers would save the amount they received in paid leave and would draw down those extra savings and the interest on those savings to maintain their consumption during the period in which their retirement benefits were reduced. In other words, savings before retirement would increase to undo the change in the timing of their disposable income.

For example, assume that a cohort of workers received $10 billion of parental leave benefits in 2020 and gave up a present-discounted-value equivalent of $78 billion of retirement benefits in 2060. Under the consumption-smoothing assumption, those workers would save $10 billion more in 2020, would earn $68 billion of interest on savings over the next four decades, would save that interest, and would draw down the $78 billion of savings in 2060. The government would borrow an additional $10 billion in 2020, would incur $68 billion of interest expense on that borrowing over the next four decades, would borrow to cover those interest costs, and would retire the $78 billion of additional debt in 2060. There would be no change in national saving (private saving minus government borrowing) in any year.

The general revenue loaned to the Social Security system could be obtained by additional government borrowing. When the Social Security system repaid the loan, the additional debt could be retired. No generation’s taxes would need to be changed.

Unfortunately, there are several reasons why this favorable scenario might not occur.

**Imperfect Consumption Smoothing**

In the actual economy, the proposal’s effects would probably be less benign than as described above, even if it were implemented as intended. Casual observation indicates that many people do not completely smooth their consumption. As a result, some workers would probably not save the full amount of their leave benefit, causing their consumption to rise, their labor supply to fall, or both, when they receive the benefit. They would then not accumulate sufficient savings to fully offset the reduction in their retirement benefits, causing their consumption to fall when they retire. That effect would not be surprising. Indeed, the arguments for parental leave generally assume that workers do not perfectly smooth their consumer spending and that current law should be changed to give them more resources when they welcome a child.

With imperfect consumption smoothing, some of the normal economic consequences of budget deficits would occur. Because the increase in government borrowing would not be fully offset by an increase in private savings, national saving and investment would fall. Future generations would inherit a smaller capital stock because of the reduction in investment, which would lower their productivity, wages, and lifetime standard of living.

**Possible Tax Increases on Future Workers**

It is also likely that aggregate payments to retirees would not fall by an amount fully sufficient to offset the costs of the parental leave benefit. In that case, part of the costs of parental leave would likely be paid through tax increases on the next generation of workers.

One minor point concerns the benefits that a small number of retirees receive from the Supplemental Security Income (SSI) program. SSI benefits are available to low-income people 65

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23 In theory, budget neutrality could be impaired by adverse selection. The proposal offers a benefit reduction rate that is intended to be budget neutral for all workers in the aggregate, but the trade-off would be more favorable for some workers than for others. For example, it would be favorable for a worker who has had relatively high earnings before leave is claimed but who expects to retire with relatively less high lifetime earnings, or a worker who expects to die or claim disability benefits before retirement. If workers with favorable trade-offs disproportionately claim the benefit, budget neutrality would break down. In practice, it is not clear that this problem would be important.
and over, paying maximum benefits of $735 per month for individuals and $1,103 per month for couples in 2018.24 Benefits are reduced by $1 for each dollar of countable income, falling to zero when countable income reaches the maximum benefit level. Because Social Security benefits are fully countable, each dollar lost in Social Security benefits results in a $1 increase in SSI benefits for eligible households.25 A small number of retirees whose Social Security benefits were reduced because they claimed parental leave would receive additional SSI benefits.

A bigger challenge is a political one: Will Congress enforce the benefit reduction bargain accepted by workers who take parental leave? Although economic theory suggests that it can be desirable for the government to make bargains with individuals over their lifespans, the political process is not always conducive to the enforcement of such bargains.

The question is not whether Congress can implement a Social Security benefit reduction. The increase in the NRA from 65 to 67 that was adopted in 1983 is being implemented with little complaint and, as discussed below, Congress may well reduce benefits to address the program’s fiscal imbalance. The relevant question is whether a future Congress would require workers to accept lower retirement benefits than otherwise identical workers merely because decades earlier they chose a parental leave benefit, or whether the future Congress would instead decide that the differential treatment was unfair.

The editors of The Wall Street Journal argue that the benefit reduction would not be enforced:

Congressional Democrats . . . are already dismissing the proposal as unfair for forcing women to choose between children and retirement. Democrats will quickly wipe out the deferral period so everyone is entitled to leave now and get the same retirement benefits later.26

Indeed, critics of the proposal are vigorously making that fairness argument.27 If the proposal is implemented, they will likely continue to make that argument over the working lives of today’s workers.

Further, because lower-paid workers are less likely to have access to paid leave from their employers,28 it is likely that participation in the program would be concentrated among less-educated, lower-income workers. It seems especially unlikely that these workers would be required to receive lower monthly retirement benefits because they took parental leave, while higher-earning workers would escape a benefit reduction because they received paid leave from their employers.

Previous experience offers little useful guidance on this issue. To be sure, workers can choose today to permanently reduce their monthly benefits by claiming benefits at an earlier age; a worker who draws benefits at age 62 receives a benefit 44 percent lower than an otherwise identical worker who draws benefits at age 70. Congress has not tried to save early retirees from the benefit reductions that they accepted. But Congress’s willingness to enforce a benefit reduction that a retiree accepts at or after age 62 (by claiming benefits earlier) offers little assurance that Congress would enforce a benefit reduction based on a worker’s decision to accept a parental leave benefit when he was, say, 25 years old.

The argument that Congress would enforce the benefit reduction receives stronger support from how benefits are linked to lifetime wages. Workers who earn lower wages, or who work in a job not covered by Social Security, receive lower monthly benefits. Congress has enforced those benefit reductions, which partly reflect decisions made, or circumstances experienced, by workers decades earlier. Those benefit differentials are supported because they reflect the broadly accepted principle that Social Security is a

24 Social Security Administration, “SSI Federal Payment Amounts for 2018.” In January 2018, 1.25 million of the 45.73 million Social Security recipients aged 65 or over received SSI benefits; Social Security Administration, “Monthly Statistical Snapshot” (Jan. 2018).
25 42 U.S.C. sections 1382(b)(1) and 1382a(a)(2)(B).
contributory program in which benefits are linked to a worker’s tax payments. Would a benefit reduction based on parental leave receive similar support? We view this as less likely because workers who took the parental leave benefit would not have paid any less into the program, although they would have taken more out of the program decades earlier.

The benefit reduction would be more likely to be enforced if it were less transparent when it was implemented. If retirees were simply informed of their benefit amount with no specific reminder that it reflected a reduction because of parental leave, they would be less likely to protest the reduction.

From the macroeconomic standpoint that we are considering, the failure to enforce the benefit reduction would not be harmful if Congress made offsetting reductions in the general level of benefits. It is unlikely, however, that Congress would adopt any such benefit reductions outside the context of a plan to restore Social Security’s solvency. Unfortunately, the proposal would have adverse implications in that context.

Changes to Social Security

Social Security will have to undergo changes in upcoming decades because of its fiscal imbalance. Under current law, the program’s trust fund is projected to be exhausted in 2034, after which dedicated taxes would be sufficient to cover only 77 percent of promised benefits.29 Many budget proposals put forward by groups and individuals from across the political spectrum propose benefit changes to address Social Security’s fiscal imbalance.30

If benefits were changed as part of a solvency package, there are several reasons to think that retirees who have taken parental leave would not suffer a fully offsetting benefit reduction relative to workers who did not take parental leave. For example, suppose that the NRA was raised from 67 to 68. Would a worker whose NRA has risen to 67 years 6 months because he claimed leave for two children be required to accept an NRA of 68 years 6 months? Congress might well decide that 68 was high enough for everyone. Or suppose that overall benefits were reduced to 90 percent of current-law levels, perhaps through changes to the primary insurance amount formula or through less generous inflation indexation. A worker who previously agreed to a 1.8 percent benefit reduction relative to workers who did not take leave would probably not be asked to suddenly accept a 2 percent relative benefit reduction, although a 2 percent reduction would be required for a full budgetary offset at the lower benefit level. And it is almost certain that the relative benefit reduction would not be enforced if Social Security underwent a sweeping structural transformation to means-tested benefits or uniform monthly benefits not linked to earnings histories.

Again, the key question from our macroeconomic perspective is not how retirees who take leave would be treated relative to those who did not take leave, but how each generation’s aggregate retirement benefits would be affected. Unfortunately, the answer to that question seems clear. By allowing today’s workers to receive potential leave benefits, the proposal would lower the average level of retirement benefits when today’s workers reach retirement age. Because retirement benefits would be lower than they otherwise would have been, Congress would probably shift away from benefit cuts and toward tax increases when it addressed the program’s fiscal imbalance, choosing not to further reduce benefits that had already been reduced relative to current law.31

Because current workers pay for the retirement benefits of current retirees through their payroll taxes, that congressional decision would shift burdens back toward earlier generations, partly negating the proposal’s objective of spending more on the young and less on the elderly.

31To be sure, there would be little or no reduction in retirement benefits by 2034, but the trustees’ projections would show the retirement benefit reductions expected to occur, which would influence Congress’s decisions.
General Revenue

The proposal envisions that Social Security will repay a substantial amount of general revenue several decades from now. But that will be exactly when Social Security faces significant fiscal problems. It is highly likely that Congress would decide that Social Security “needed” that money more than the general treasury did and would cancel repayment of that loan. Congress has, after all, repeatedly made implicit and explicit transfers of general revenue to Social Security even when the system was running surpluses and even as the program’s advocates described it as self-supporting.

If the general revenue loan was not repaid, the proposal would allow Congress to avert both benefit cuts and payroll tax increases when it addressed the looming trust fund exhaustion. If the general revenue transfer was financed by a tax increase on the generation working at that time, its effects would be similar to those described above. It seems more likely, however, that the general revenue transfer would simply add to the overall government debt, implying tax increases or spending cuts on still later generations. The shift of the fiscal burden to future generations and the reduction in national saving would be even greater.

Moreover, the use of general revenue would weaken the fiscal discipline that dedicated financing is supposed to impose on the Social Security program. Future benefit increases could also be financed through a deficit-financed infusion of general revenue.

The Slippery Slope

By moving the perception of Social Security away from an insurance program against income losses in retirement and toward an asset that workers own and that accumulates value over their lifetimes, this proposal invites other, similar proposals to follow. The first step could be to extend the parental leave proposal to the other types of leave covered by the FMLA (to care for a seriously ill spouse, child, or parent, or an injured service member in the family; to recover from the employee’s own illness; or to deal with a family member’s deployment to the armed forces).

Indeed, Shapiro suggested that Congress consider such an extension after seeing how the program works.

Other important needs that arise during a working lifetime could follow. For comparison, section 72(t)(2) allows individuals to make early withdrawals from tax-preferred retirement savings accounts for several purposes without incurring the 10 percent penalty tax imposed by section 72(t)(1). Subject to various limits, penalty-free withdrawals may be made to pay large out-of-pocket medical costs, pay higher education costs, buy health insurance while unemployed, and purchase a home.

The Pandora’s box concern is a strong argument for caution. The desire among politicians to offer people something today that can be considered budget neutral (under strong assumptions, as we have discussed above) and that will not be paid for until decades in the future would be strong. This proposal could put Congress on a slippery slope to using Social Security as a piggy bank for many items, not just paid parental leave, weakening the integrity of the Social Security system.

Conclusion

On balance, we view the proposal as problematic and the claims of some of its supporters as overstated. Because workers do not perfectly smooth their lifetime consumption, we expect the proposal to reduce national savings. In our view, aggregate payments to retirees would likely not fall by enough to offset the costs of the benefit, which could result in tax increases on future workers or an increase in federal borrowing, shifting the burden to future generations.

We believe that this proposal would lead Congress to address Social Security’s solvency by relying more on tax increases than it otherwise would, which we view as undesirable. We also question the enforceability of the program. Critics are already arguing that it is unfair to reduce the


33 Shapiro, supra note 4, at 3.
retirement benefit of today’s workers if they choose to borrow against their retirement benefit to finance paid leave. Given that this benefit would probably be disproportionately taken by lower-income workers (who have relatively less access to paid leave from their employers), enforcement would be even more difficult. Any changes to Social Security — either a benefit reduction to maintain solvency or structural changes — would make enforcement even less likely.

Finally, we are concerned about opening Pandora’s box. The argument that workers can simply take “their money” from Social Security earlier than they otherwise would, and that no harmful fiscal effects would occur, could easily be extended to other types of benefits.

Unlike tax-financed paid leave, this proposal would increase the burden placed on future generations. However, the proposal is likely less harmful than approaches that would simply use deficit financing without any specified offsets; the proposal offers the hope that part of the cost of each generation’s benefit would be covered by spending cuts that fall on that generation.

We conclude by noting that we are not persuaded of the need for any federal paid parental leave benefit. There are many good arguments for the importance of paid parental leave and many good arguments against. As mentioned above, several states are beginning experiments with paid parental leave programs. We believe the best course for the federal government is to allow those experiments to continue.