

# THE AMERICAN FAMILY TRUST

## INVESTMENTS IN HUMAN CAPITAL AND EDUCATION

**W**idely shared middle-class prosperity has made the United States the most hopeful and dynamic country on earth and is a foundation of strong democracy. Yet today, America's middle class is in trouble: the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Major economic and policy changes over the past three decades have widened economic inequality and reduced mobility in ways that go far beyond the impact of the recent recession. Too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there. To meet this challenge, Millions to the Middle offers dramatic public policy initiatives to rebuild and grow the nation's middle class.

We aim to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. The 14 policies we offer are rooted in mainstream American values and able to command strong public support over the long term. Together, they go beyond the confines of the current policy debates and are of sufficient scale to firmly establish a middle-class America.

Our policy agenda is based on the three broad pillars of middle-class opportunity and security: investments in human capital and education; support for growth, job creation, and career development; and helping Americans build assets. This policy is part of the **Investments in Human Capital and Education**.

### POLICY IN FOCUS

#### THE AMERICAN FAMILY TRUST

Provide 12 weeks of paid benefits to employees who need time off work to care for a new child, a sick family member, or their own illness. The self-financing trust is funded by premiums paid equally by employers and employees.

# POLICY: THE AMERICAN FAMILY TRUST

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Enable working people to care for a new child or a loved one in need without losing their paychecks—or their jobs—through a family leave insurance system.

## POLICY RATIONALE

In today's economy, families increasingly depend on the incomes of all adults in the household, yet many working people also have responsibilities as parents and caregivers. Public policy has not kept up with the changing workforce: without access to paid leave, employees who need flexibility in their work lives to recover from illness or care for family members often face economic hardship. Family leave insurance addresses the reality of people's lives as they strive to work their way into the middle class.

While still the typical primary caregiver, the number of women in the American workforce has expanded dramatically in the past decades: today nearly two-thirds of American families with children – including both married couples and single parents – have all adults in the workforce.<sup>1</sup> At the same time, one in five American adults reports having caregiving responsibilities for another adult, such as a disabled or elderly relative, and most of these caregivers are employed.<sup>2</sup> The proportion of the workforce with caring for elderly loved ones will continue to grow as the U.S. population ages.

Uncompensated caregiving responsibilities have very real economic consequences for working Americans. For example, an adult caring for his or her aging parent stands to lose as much as \$303,880 cumulatively in lost wages, Social Security, and pension benefits due to leaving the labor force early and/or working reduced hours because of caregiving responsibilities, according to one recent estimate.<sup>3</sup> Yet it is low-income workers who are least likely to have access to any form of paid leave. Low-wage workers often hold jobs with rigid or unpredictable schedules that further exacerbate conflicts between work and family responsibilities.<sup>4</sup> Faced with the need to cope with a family illness or the birth of child, many workers see no option other than to quit or take time off they know will result in being fired from their job.<sup>5</sup>

The Family and Medical Leave Act, passed in 1993, was intended to provide some security to families facing a sudden illness, providing family care, or welcoming a new child. The law guarantees 12 weeks of unpaid leave to Americans working at businesses with 50 or more employees. Employers cannot replace workers on FMLA leave or retaliate against them in any way. Since its implementation, workers have used FMLA leave more than 100 million times.<sup>6</sup> But four in ten American workers are not eligible because they work for smaller companies or have not been on the job long enough, and millions of Americans cannot afford to take leave without pay.<sup>7</sup> Because only a small proportion of employees receive paid leave benefits directly from their employers, working Americans are still forced to risk their incomes and jobs to maintain their families.<sup>8</sup> Employees of small companies lack any federal protection whatsoever.

## OPINION SNAPSHOT

- 82% of Americans say family and maternity leave is a “very important” workplace standard, rating it even higher than basic protections like the minimum wage or overtime pay.<sup>16</sup>
- Other surveys show similarly strong public support for a paid leave standard written into federal law.<sup>17</sup>

The U.S. policy of offering only unpaid leave to deal with major life events stands in sharp contrast to the rest of the world. For example, 169 countries guarantee some form of paid leave to new parents – the U.S. joins Liberia, Papua New Guinea, and Swaziland on the short list of nations that leave workers alone to cope with this life-changing event and fail to mandate that employers provide paid time off when a child is born.<sup>9</sup> In contrast, Canada, which has fairly typical policies for a developed economy, provides up to 51 weeks of partially paid leave for parents to spend with a new child.<sup>10</sup> The new American Family Trust proposes a more modest standard for the United States: 12 weeks of partially paid leave to enable working families to provide needed care for loved ones without losing their jobs. This standard builds on successful paid leave programs already operating in states like California and New Jersey.

The American Family Trust would also have benefits for employers, especially small businesses that often have the greatest difficulty providing paid leave on their own. Enabling employees to address major life events like the arrival of a new baby or a spouse's serious illness enables companies to recruit and retain the best employees and can improve workplace morale and productivity. It will also help employers save money in reduced turnover costs. For example, California's modest six-week paid family leave program has improved retention among low-wage workers by ten percent.<sup>11</sup> This represents no small savings given that turnover costs can amount to 25 to 200 percent of an employee's annual compensation when recruiting, hiring, training, and other requirements are taken into account.<sup>12</sup> Although business lobbyists were initially the most vehement opponents of California's paid leave program, five years after its implementation nine out of ten employers reported no negative effect on business profitability or performance, with small businesses even less likely to detect any damaging impact on their bottom line.<sup>13</sup>

Finally, providing family leave insurance reflects Americans' deep and widely shared values about the centrality and importance of family. Caring for children and sick loved ones is a concrete expression of that commitment. "You shouldn't have to risk your job to take care of your family," as advocates with the Multi-State Working Families Consortium put it, "and you shouldn't have to put your family at risk just to do your job."<sup>14</sup> The American Family Trust, based closely on the Family Leave Insurance Act before the 111th Congress, will help to make that value a reality.<sup>15</sup>

## **POLICY DESIGN**

The American Family Trust would provide 12 weeks of paid benefits to employees who need time off work to care for a new child, a sick family member, or their own illness. The self-financing trust is funded by premiums paid equally by employees and employers.

- All full- and part-time employees who have worked for their current employer and paid into the Trust for at least six months will be eligible for coverage.
- Employees receive up to 12 weeks of paid leave over a 12 month period to care for:
  - a newborn, newly adopted child, or foster child
  - a seriously ill family member
  - a serious personal medical condition.

- Benefits will be based on wages and will be indexed for inflation:
- 100% of weekly earnings to \$20,000
- 75% of weekly earnings to \$30,000
- 55% of weekly earnings for \$30,001-\$60,000
- 45% of weekly earnings for \$60,001-\$97,000
- For those earning above \$97,000, 40% of the weekly earnings of a \$97,000 yearly income.
- Employees cannot be fired for using leave under the American Family Trust, and health insurance benefits continue without interruption.
- To fund the trust, employers and employees each pay a premium of 0.2 percent of each worker's gross pay.
- Both states and individual companies may opt out of the program if they already mandate or offer equivalent or better benefits.

## ENDNOTES

1. This proportion has fallen slightly since the rise in unemployment in the last recession. "Employment Characteristics of Families" Bureau of Labor Statistics (March 2011). [http://www.bls.gov/news.release/archives/famee\\_03242011.htm](http://www.bls.gov/news.release/archives/famee_03242011.htm)
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6. "The Family and Medical Leave Act Regulations: A Report on the Department of Labor's Request for Information 2007 Update," U.S. Department of Labor, June 2007.
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8. Jodi Grant et al, "Expecting Better: A State-By-State Analysis of Parental Leave Programs," National Partnership for Women and Families (2000). [http://www.nationalpartnership.org/site/DocServer/WF\\_PL\\_ExpectingBetter\\_Report\\_0505.pdf?docID=1052&autologin=true](http://www.nationalpartnership.org/site/DocServer/WF_PL_ExpectingBetter_Report_0505.pdf?docID=1052&autologin=true)
9. Note that many of these countries provide paid leave only to new mothers. 66 countries also give fathers the right to paid time off. Jody Heymann, Alison Earle, and Jeffrey Hayes, "The Work, Family, and Equity Index: How Does the United States Measure Up?" The Institute for Health and Social Policy at McGill University (2007). <http://www.mcgill.ca/files/ihsp/WFEI2007.pdf>
10. "Raising the Global Floor: Adult Labour," McGill Institute for Health and Social Policy (2012). <http://raisingtheglobalfloor.org/index.php>
11. Eileen Appelbaum and Ruth Milkman, "Leaves That Pay: Employers and Worker Experiences with Paid Family Leave in California," Center for Economic Policy Research (2011). <http://www.cepr.net/documents/publications/paid-family-leave-1-2011.pdf>
12. See for example: "Employee Turnover – A Critical Human Resource Benchmark," Employment Policy Foundation (2002); "Compilation of Turnover Cost Studies," Sasha Corporation (2007). <http://www.sashacorp.com/turnframe.html>
13. Appelbaum, "Leaves That Pay," 2011.
14. <http://familyvaluesatwork.org/assets/files/FV@workReport.pdf>
15. For more on H.R. 1723, The Family Leave Insurance Act sponsored by Rep. Pete Stark, see <http://www.gpo.gov/fdsys/pkg/BILLS-111hr1723ih/pdf/BILLS-111hr1723ih.pdf>
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