



Policy Memorandum

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PAID SICK DAYS **Measuring the small cost for** **Connecticut businesses**

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The Connecticut General Assembly is considering legislation that would require employers to provide paid sick days to employees. Similar legislation has been considered in previous years and has passed in the state's House of Representatives and Senate in separate sessions. Connecticut's newly elected governor, Dannel Malloy, has announced his support for paid sick days legislation.

The issue is expected to generate considerable lobbying and debate. Proponents of the measure say it provides job and income security, particularly for low-wage workers, and reduces public health risks arising from the spread of illnesses to consumers and vulnerable populations. Opponents of the measure argue that it would be costly for Connecticut employers and could lead to job reductions at a time when the state is struggling to increase employment. To date there has been little empirical research on the actual cost to Connecticut employers.

In this policy memorandum, we examine the cost of providing paid sick days to Connecticut employees in a range of industries. This paper provides concrete economic data (based on the U.S. Census Bureau's Economic Census) to help policymakers better understand the potential costs incurred through implementation of paid sick days legislation. Specifically it provides information on the relative size of potential costs as compared to average sales¹ for Connecticut firms by industry. The data clearly show that the potential cost of providing paid sick days is in fact extremely small relative to the total sales of a firm. In addition, available research shows cost-savings for employers that provide paid sick days, largely resulting from reduced employee turnover.

Furthermore, by demonstrating that potential costs associated with implementation are very small as a share of sales, this paper provides a clearer picture of how employers might adjust to or absorb such costs. While there are a variety of strategies employers might choose to comply with the proposed new requirement, the bottom line is that costs would be so low that compliance could easily be achieved through very modest adjustments to either prices or other areas of compensation, without reducing employment.

Key findings:

- If all employees used all five paid sick days, the average cost to an employer that currently provides no paid sick days to any employees would be 0.40% of sales.
- Among workers who currently have access to five paid sick days, the industry-weighted average number of days taken is 2.41 days; if employees used this average number of paid sick days, the total cost would be 0.19% of sales.
- For the many Connecticut employers already providing five or more paid sick days, there would be no additional cost.
- Because many employers already provide five or more paid sick days, legislating paid sick days will level the playing field within Connecticut.
- After factoring in employees working for firms with less than 50 employees, and the proportion of workers already accessing paid sick days, the estimated cost of implementing paid sick days legislation within each sector ranges from less than 0.01% of sales in wholesale trade to 0.14% of sales in arts, entertainment, and recreation. Across all sectors, the estimated cost is 0.05% (five one-hundredths of a percent) of sales.

TABLE 1

Estimated cost of implementing paid sick days for employers currently providing no paid sick leave, as share of total sales, by sector

Industry sector ²	Payroll as share of employer sales (etc.)	Maximum usage scenario (40.0 hours of sick leave)	Sector-average usage scenario (average days/hours per workers in sector)*
<i>Mining, quarrying, and oil and gas extraction</i>	21.8%	0.42%	0.14%
<i>Construction</i>	21.2	0.41	0.14
<i>Manufacturing</i>	17.7	0.34	0.11
<i>Wholesale trade</i>	3.4	0.07	0.03
<i>Retail trade</i>	9.9	0.19	0.10
<i>Transportation and warehousing</i>	33.0	0.63	0.27
<i>Real estate and rental and leasing</i>	17.5	0.34	0.20
<i>Professional, scientific, and technical services</i>	50.5	0.97	0.54
<i>Administrative and support and waste management and remediation services**</i>	31.1	0.60	0.35
<i>Educational services</i>	31.7	0.61	0.35
<i>Health care and social assistance</i>	42.1	0.81	0.41
<i>Arts, entertainment, and recreation</i>	28.7	0.55	0.31
<i>Accommodation and food services</i>	27.2	0.52	0.16
<i>Other services (except public administration)</i>	27.6	0.53	0.29
TOTALS	21.0	0.40	0.19

* The average employee, across all sectors, takes 2.41 days or 19.3 hours of sick leave.

** This broad sector includes general administrative support services such as office administration and security, as well as services specifically related to waste management and remediation.

SOURCE: This analysis derives from the U.S. Census Bureau's 2007 Economic Census, Table 1: Selected Statistics by Economic Sector; http://factfinder.census.gov/servlet/GQRTable?_bm=y&-geo_id=04000US09&-ds_name=EC0700A1&-_lang=en. Sector-specific data on usage of paid sick days comes from an unpublished Institute for Women's Policy Research analysis of the Centers for Disease Control and Prevention's 2008 National Health Interview Survey.

For firms that currently offer no paid leave, cost of providing paid sick days is low

Many firms in Connecticut already provide paid sick leave benefits that meet or exceed the five days of sick time required under the proposed legislation. In addition, the measure applies only to firms with 50 or more employees (similar to the federal Family and Medical Leave Act). Data from the U.S. Census Bureau's Economic Census can be used to calculate what it would cost affected employers to provide sick leave.

Under the proposed legislation, an employee earns one hour of paid sick time for every 40 hours worked, up to a maximum of 40 hours per year. The maximum cost to an employer that currently provides no sick time to any employees would be the cost of paying for an additional 40 hours of wages for each such employee.

Table 1 presents the estimated employer costs based on two scenarios of employee sick day usage. The *maximum usage scenario (column two)* is based on maximum possible use of paid sick days by every employee of the company (i.e., all employees accrue and use the full 40 hours of paid sick leave they could possibly use).³ Across all industries, the average cost for all employers that do not currently provide paid sick days is equal to 0.4% of gross sales.⁴

While this scenario provides a useful “outer limit” figure, it likely overstates the real cost because several factors would likely reduce overall sick day usage. Two such factors include:

- **Eligibility restrictions:**

The maximum usage scenario likely overstates the actual cost because it assumes that all employees will be eligible to use all 40 hours of paid leave per year. The proposed legislation includes probationary periods for new employees ranging from four months for full-time employees to as much as eight months for part-time employees. At any given time, some of an employer's workers are likely to be within their probationary period and therefore not yet eligible to use any paid sick time, making maximum usage by all employees impossible.

- **Existence of salaried and management employees:**

In most firms some employees in management positions already receive paid sick leave benefits. In addition, some employees—likely also management employees—are salaried employees, not hourly employees. The Connecticut legislation applies only to hourly employees, so salaried employees or management employees already receiving paid sick leave of five or more days incur no additional cost under the proposed sick leave legislation.

Most importantly, data from the National Health Interview Survey (NHIS) indicates that employees who do have paid sick days, on average, use substantially less than all of the sick time available to them.

The sector-average usage scenario (column three) reflects the estimated cost of providing paid sick days using sector specific data from the NHIS on paid sick day usage by employees (Institute for Women's Policy Research, unpublished analysis). Relying on data for employees with access to five paid sick days, the total cost of providing sick days to employees who currently do not receive these benefits drops even lower under this scenario. Across all industries for which data are available, the cost is less than one-fifth of one percent (0.19%) of gross sales (ranging from a low of 0.03% in wholesale trade to 0.54% in professional, scientific, and technical services). Note, the figures under the sector-average usage scenario still overestimate the costs, due to the factors outlined above (eligibility restrictions and salaried and management employees already receiving benefits and not covered by the legislation.) This calculation of cost to employers still represents a conservative estimate in the sense that it overstates costs, but it is the most accurate estimate available because it is based on reliable empirical data on the use of sick leave benefits by employees.

Cost of providing paid sick days miniscule for Connecticut employers and industries as a whole

Given the low cost of providing paid sick days, it is not surprising that many employers in Connecticut already provide at least the minimum level of benefits that would be required under the proposed legislation. Debate about the full impact of the legislation on the Connecticut economy as a whole must consider that the majority of employees in the state already receive sick leave benefits that comply with the measure. For the employers of workers who already receive paid sick days, there would be no cost increase at all. The Current Population Survey shows that the share of employees in Connecticut who currently lack access to paid sick days ranges from 7.6% of workers in the utilities sector to 88.7% in the construction sector, with an average across all industries of 34.6%.⁵

While Table 1 shows sector-specific estimates of the cost of providing up to five days of paid sick leave (assuming employers currently do not provide any paid sick days), the more relevant metric for policymakers is the *overall real* potential cost across all sectors, and the potential impact on the state's economy. Such estimates should take into account the high level of paid sick days already provided and the proposed bill's application only to firms with 50 or more employees. **Table 2** shows the impact that the measure would have on all employers within each industry classification and for all available industry sectors, incorporating cost of paid sick days under the sector-specific utilization rate

TABLE 2

Estimated cost of implementing paid sick days as a share of total sales, by sector

Industry sector	Gross cost of paid sick days as share of sales, etc.*	% of sector's workers not now receiving paid sick days	% of workers in firms with 50 or more employees	Estimated cost of extending sick day coverage (col. 1 X 2 X 3)
<i>Mining, quarrying, and oil and gas extraction</i>	0.14%	52.7%	79.6%	0.06%
<i>Construction</i>	0.14	88.7	30.5	0.04
<i>Manufacturing</i>	0.11	26.9	79.2	0.02
<i>Wholesale trade</i>	0.03	20.3	69.1	< .01
<i>Retail trade</i>	0.10	36.2	72.9	0.03
<i>Transportation and warehousing</i>	0.27	43.0	85.0	0.10
<i>Real estate and rental and leasing</i>	0.20	33.9	72.0	0.05
<i>Professional, scientific, and technical services</i>	0.54	14.6	62.0	0.05
<i>Administrative and support and waste management and remediation services**</i>	0.35	82.6	44.3	0.13
<i>Educational services</i>	0.35	31.9	83.3	0.09
<i>Health care and social assistance</i>	0.41	29.7	70.2	0.09
<i>Arts, entertainment, and recreation</i>	0.31	65.0	68.5	0.14
<i>Accommodation and food services</i>	0.16	77.8	53.1	0.06
<i>Other services (except public administration)</i>	0.29	61.6	42.6	0.08
TOTAL across all sectors	0.19	34.6	74.8	0.05

* Gross cost of paid sick days based on average number of days of sick leave taken by workers in sector. The average employee, across all sectors, takes 2.41 days or 19.3 hours of sick leave..

** This broad sector includes general administrative support services such as office administration and security and services specifically related to waste management and remediation.

SOURCE: Institute for Women's Policy Research analysis of 2003-09 Annual Social Economic Supplement (ASEC) of the Current Population Survey.

(column one), the proportion of a sector's workers not currently receiving paid sick days (column two), and the proportion of workers within each sector employed at firms with 50 or more workers (column three). Column four shows that the estimated cost within each sector ranges from less than 0.01% of sales in wholesale trade to 0.14% of sales in arts, entertainment and recreation. Across all sectors, the estimated cost is 0.05% (five one hundredths of a percent) of sales, *before* incorporating anticipated savings (discussed in the text box on page 6 resulting from implementation of paid sick days). Moreover, when considering the interaction between columns two and three, it is important to note that firms with 50 or more employees are more likely than smaller firms to already be providing access to paid sick days. As a result, the calculations in column four quite likely overstate the cost of extending coverage.

Even before factoring in the proportion of workers covered and the share of workers at firms with 50 or more employees, the cost of implementing paid sick days for all employers in Connecticut is less than two-tenths of one percent of gross sales for employers on average.

After considering the proportion of workers already covered and the share of workers that would not be covered by the proposed bill, the aggregate cost shrinks to a tiny portion of sales, and is dwarfed by other costs of production such as energy costs and the cost of providing health insurance. Unlike such other costs, which typically increase over a period of several years, increased payroll costs due to paid sick days implementation would be absorbed as a one-time payroll cost increase of less than 1% of payroll costs (2.41 days in a 260-day work year).

Companies will successfully adjust to required paid sick days

Given the very small additional cost likely to confront most employers, adjustment need not be burdensome. Successful businesses learn how to absorb unexpected increases in the cost of energy or health insurance, which account for a much larger share of sales.

Because it will apply to all firms with 50 or more employees within an industry sector, the proposed sick day legislation will actually help level the playing field within Connecticut. Firms will choose among adjusting through prices, wages, or other forms of compensation knowing that their competitors are weighing the same choices. For firms competing across state lines, the considerable savings from reduced turnover and from fewer unhealthy workers refilling the salad bar or otherwise interacting with the public should substantially offset the fractional increase in labor costs as a share of total sales. Importantly, many workers that would be covered under the proposed paid sick days legislation are employed in service sector jobs that are far less vulnerable to interstate competition.

More significant, the overall economic impact of implementing paid sick leave is negligible. Although the estimated costs for employees are very low, to the extent that there are costs to employers, in a big picture sense they are offset by benefits in the form of increased compensation for employees.

REDUCED 'PRESENTEEISM' AND TURNOVER

Two of the unexplored but important savings from implementing paid sick days

The data on employer costs associated with the provision of paid sick days shows that the costs are smaller than previously expected. Less attention has been paid to the potential for employer savings from the provision of paid sick days. A growing body of research attempts to measure employer operating costs associated with the absence of sick leave policies. While less direct and harder to measure, employers can enjoy substantial savings by implementing paid sick day policies.

'Presenteeism'

"Presenteeism"—the opposite of absenteeism—is gaining recognition as a drain on productivity in the workplace, and businesses are exploring ways to mitigate its costs (Hemp 2004). Presenteeism is defined as productivity loss from workers who show up to work with real health problems; it does not include workers who might pretend to be ill to avoid working to their full capacity or workers who simply are unproductive at work. Workers without paid sick time are more likely to go to work sick (Smith and Kim 2010); particularly if they are among the millions of low-income workers who lack paid sick time but need a weekly paycheck to pay their bills. Employers bear the cost of the lost productivity that results—a cost that may well exceed the cost of providing paid sick time.

For individual employers, measuring the costs associated with presenteeism can be challenging. Sick workers may try to hide their illness out of fear of punishment, and a small decrease in productivity is difficult to detect. However, research shows that these costs are real and can be quite large (Hemp 2004). The costs vary depending on the nature of an employee's ailment and its impact on his or her performance, but the literature estimates that presenteeism reduces productivity by 7% to 28%.

Turnover

Businesses incur sizeable costs from job turnover among employees without paid sick time. Poor working conditions and environments that do not support work-family obligations can increase job turnover and ultimately disrupt labor supply (Josephson et al. 2008). Job turnover and rehiring and training are costly for employers, and there is considerable evidence that good working conditions and health benefits—including paid sick days—can mitigate job turnover. Employers that offer more generous health benefits to workers are known to have fewer employees quit and lower turnover costs. Monheit and Cooper (1993) find that having paid sick time reduces voluntary job mobility by 5.58 percentage points for married men and 3.61 percentage points for married women.

The effect of the Healthy Families Act on worker turnover and its associated costs turns out to be quite high. Paid sick time may increase worker loyalty to an employer and reduce employer costs of hiring and training, which are typically high in low-wage industries (Lovell 2005). Lovell finds that employers' savings from reduced turnover are substantial: Nationally, paid sick days can reduce employer costs by about \$25 billion annually. Clearly, the status quo—presenteeism in the workplace—is not free of costs, and the relative costs of providing paid sick time are less than the cost of doing nothing (Lovell 2005).

Further research on the savings to employers from reduced presenteeism and reduced turnover would be valuable.

—The text in this box draws on **Elise Gould, Kai Filion, Andrew Green**, Paid Sick Days: Doing well by workers is also good business, *Economic Policy Institute*, forthcoming.

Conclusion

Connecticut has good reason to take pride in the relatively high rate of paid sick days currently provided to employees by Connecticut businesses. By adopting legislation that further extends paid sick days to its workers, Connecticut can build on its well-founded reputation for having a highly educated, healthy, and productive workforce. Without regulation, policymakers can expect a continued “race to the bottom” in which competitive pressures cause employers to reduce benefits that improve the health of employees, and, in this case, the health of the public. Instead, establishing a minimum standard for the provision of paid sick days would level the playing field among employers within the state and improve the health of families and workplaces. The empirical evidence shows that the costs of such a policy for Connecticut’s employers would be extremely low, and therefore easily absorbed through very small adjustments without a measurable impact on employment.

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Endnotes

1. “Sales” refers here and throughout the paper to “Employer sales, shipments, receipts, revenue, or business done,” as defined in the U.S. Census Bureau’s Economic Census.
2. Complete data for four industry sectors are not available for analysis. These sectors include Utilities, Information, Finance and Insurance, and Management of Companies and Enterprises.
3. Assumes employees are full-time, full-year.
4. This paper assumes that employer practices for replacing absent employees are the same for paid and unpaid leave.
5. The source for this data is an unpublished Institute for Women’s Policy Research analysis of the 2003-2009 Annual Social Economic Supplement of the Current Population Survey. Only 7.6% of workers in the utilities sector (not shown here due to data limitations) are currently uncovered by paid sick leave, a lower proportion of uncovered workers than in other sectors.

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