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POLICY BRIEF

Funding Parental Leave Today with Tomorrow's Social Security Benefits Won't Work

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"Never let a serious crisis go to waste." This political maxim is apparently inspiring a flurry of responses to the recent Supreme Court ruling overturning *Roe v. Wade*. Among them is a revival of the idea of tapping Social Security to fund parental leave benefits. Many legislators frequently express a desire to provide more support for working parents, such as paid parental leave. Although these initiatives may be well-intentioned, they still require analysis to determine whether they would meet their goals and deliver more benefits than costs. For example, senators Marco Rubio (R-FL) and Mitt Romney (R-UT) recently reintroduced the New Parents Act, a bill that would allow new parents to advance themselves up to three months of parental leave benefits today, drawing the funds from their eventual Social Security retirement benefits.[1]

Unfortunately, the idea that the US government can provide generous new benefits to Americans today while successfully financing this spending decades down the road is implausible, not least because the plan relies on a host of unrealistic assumptions. In addition, the plan fails to account for political constraints that virtually guarantee the failure of its principal financing mechanism.

THE NEW PARENTS ACT

Under the plan, parents would be able to receive a Social Security benefit providing up to three months of paid parental leave.[2] Parents receiving the benefit would later pay it back either by increasing their Social Security full retirement age (which is 67 under current law) by three to six months or by receiving a proportionate reduction in monthly retirement benefits during their first five years of retirement. In other words, every parent who receives paid leave benefits today would either begin receiving Social Security at a later age than other Americans or receive smaller

Social Security benefits in their first years of retirement. Put even more simply, the plan would advance-pay a portion of the Social Security program's future retirement benefit obligations to new parents today.

In theory, the plan would be budget neutral in the long run because the benefits paid today would be recouped by the government in the distant future. The stated goals of the plan are to invest in American families today in a way that produces substantial social and economic returns without increasing the net cost of government overall. These are noble goals, but the plan is almost certain to fail for many reasons.

THE ECONOMICS OF PAID LEAVE

The most common argument for government intervention in this area is that there is a market (that is, private-sector) failure to be remedied. When polled, US workers express their desire for paid leave benefits, yet many American workers do not have access to them. It is this lack of access that current paid-leave proposals seek to remedy.

It is certainly true that not all workers have paid parental leave. In recent surveys, between 45 and 63 percent of women report having access to paid leave in some form.[3] The Bureau of Labor Statistics (BLS) reports lower numbers, showing only 23 percent of civilian employees with access to paid family leave benefits, but this lower estimate is a result of the BLS counting only programs providing solely paid parental leave, not other programs that provide it, such as temporary disability insurance or general paid leave benefits.[4]

Nevertheless, whereas many workers have access to paid leave, not all do. Does this fact by itself mean that the market is failing and that a government-financed solution is required? The answer is no, for multiple reasons.

First, paid leave is a fringe benefit (specifically, a payment for time spent away from one's job) and therefore must be financed by someone in some way. If the benefit is provided by employers, it must be deducted from wages such that a worker's total compensation, including paid leave benefits, remains commensurate with the total amount an employer is willing and able to pay for a given job. Some workers might regard trading wages for paid-leave benefits as a quality-of-life improvement, but others undoubtedly would not.

Second, different workers will prefer different mixes of fringe benefits and wages. Some workers may prefer to receive all their pay as wages. Other workers may prefer a combination of wages and fringe benefits but in a different ratio than the one prescribed by government. A worker might prefer a higher proportion of fringe benefits, or vice versa. There is no one objectively correct mix of wages and fringe benefits for all workers that government can successfully identify and impose.

Perhaps most important, requiring that all employers provide paid leave benefits (whether financed by employers or by the government) for all their employees means arbitrarily requiring either that the share of workers' total compensation paid as wages be reduced for all workers, that workers' other rewards and benefits be reduced, or both. There is no evidence that the government is in better position to allocate these tradeoffs than the employment market—especially historically tight labor markets such as today's, where prospective workers' leverage relative to employers is exceptionally high.

Conservative legislators who support these proposals deserve credit for understanding the adverse consequences of government mandates and federal spending and for attempting to devise a solution that avoids a net spending increase. This principle is behind the idea that a portion of scheduled Social Security benefits should be used to finance paid parental leave benefits, rather than creating an entirely new benefit with an entirely new cost. However, Social Security is ill-suited to the task, and it is extremely unlikely that the effort to avoid a net spending increase would be successful, as the remainder of this brief will explain.

WHY THE US GOVERNMENT SHOULDN'T USE SOCIAL SECURITY TO PAY PARENTAL LEAVE BENEFITS

Problematic Use of Social Security

The proposed use of Social Security as a funding source has problems for several reasons.

First, the claim that individuals can spend some of their future Social Security benefits today in exchange for forgoing those benefits tomorrow is not well-founded. This intertemporal exchange cannot really work because, contrary to the popular narrative about Social Security, there is no actual pot of money from which today's young people can draw—only *promises* of future benefits.

Second, it is bad to set multiple retirement ages for different Social Security participants on the basis of their choices regarding parental leave-taking. Consider that Social Security's coming insolvency means the program's retirement age will almost certainly need to be raised, so it is impossible for parents to fully consider a tradeoff between current and future benefits. Yet the New Parents Act is premised on the unrealistic assumption that the retirement age, even decades from now, will remain unchanged. Until a solution to Social Security's insolvency is legislated, no participant can know how much the retirement age will be raised, how much the payroll tax may increase, or how much benefits may be cut. Consequently, today's parents don't have the information to know whether they should take the deal offered in the New Parents Act. Some who delay their retirement until age 68 might never have taken the deal had they known it would mean delaying their retirement until, say, age 69 or 70, which might be required if Congress raises the general retirement age. The public outcry caused by this apparent bait and switch would make it even less likely that the offset can ever be fully enforced.

Finally, the New Parents Act would reverse the traditional order of Social Security contributions and benefits. Although in practice Social Security is an income-transfer program, ostensibly, participants must still earn benefit entitlements; workers pay payroll taxes over their entire career, which makes them eligible for benefits later in retirement. Contributions come first, then benefits. Using Social Security to pay for parental leave would turn this principle on its head: the benefits would happen first, then (supposedly) be followed by contributions. This reversal should be troubling to anyone concerned about fiscal responsibility.

Illusory Budget Neutrality

In his book *The High Cost of Good Intentions*, Hoover Institution scholar John Cogan explains that throughout history government programs were created for one reason or another, but over time their stated missions were expanded beyond recognition.[5] A version of such expansion would almost certainly happen with the New Parents Act.

The historical patterns of government behavior are unmistakable. The federal government has a long history of backing away from measures that promise to offset new spending, often even within the short-term (10-year) budget window after their enactment. Accordingly, when the distant time arrives for today's beneficiaries to delay their retirement to repay their parental leave benefits, Congress is likely to succumb to demands to delay or forgive the offset. Future advocates will argue that it is unfair to require lower-income workers to delay their retirement relative to higher-income workers just because the lower-income workers had a need decades earlier for help with, for example, caring for sick children. Legislators of the future are likely to find these arguments persuasive.

Because no Congress can bind future Congresses, it is naïve to believe the promise that legislators in mid-21st century will insist on recouping vital Social Security benefit payments from participants who were parents decades earlier. Indeed, because some of the intended beneficiaries of the plan are stay-at-home parents as well as those just beginning their careers, there isn't even a guarantee that these beneficiaries would have sufficient Social Security benefits to garnish under current law. As a result, the plan is almost certain to add to federal indebtedness.

Moreover, Social Security is underfunded as it is, adding to the reasons that the New Parents Act is unlikely to be budget neutral. Roughly 20 percent of Social Security's future benefits are unfunded under current law.[6] This means that the act would grant real financial assistance to parents today in exchange for their forgoing of theoretical retirement benefits that would not have been provided under current law anyway. This combination must result in worsening the federal fiscal outlook.

An earlier version of the New Parents Act was scored by the Social Security chief actuary's office as having a negligible effect on the long-range actuarial balance of Social Security's Old-Age, Survivors, and Disability Insurance trust funds. However, this conclusion does not support the assertion that the proposal would be budget neutral, because as scored, the benefits would have ceased 10 years after implementation (2032 in this version).[7] In effect, the scoring simply assumed that all participants fully repay the benefits they receive and that no new participants come along who have not yet repaid their benefits. These conditions would never occur in real life.

CONCLUSION

It is bad to borrow to spend on parental leave benefits today with the mere promise of cutting Social Security payments decades in the future. Even today there is strong opposition to the Social Security benefit offset concept, as exemplified by the declaration by Kathleen Romig, scholar at the Center on Budget and Policy Priorities, that paid leave "shouldn't be financed by cutting Social Security benefits."[8] Such opposition can only intensify before these financing offsets are effective.

Furthermore, Social Security already requires legislative action to constrain its spending growth for the sake of its own financial soundness, and it is difficult to imagine a significant political constituency in favor of immediately spending any proceeds of such politically controversial entitlement reforms on a new benefit program. A significant segment of the body politic would see the combination as draining vulnerable seniors' future Social Security income, whereas another would see it as adding irresponsibly to federal budget obligations.

There is a fatal conceptual flaw at the heart of the New Parents Act. If one embraces the creative idea that projected, theoretical future Social Security benefits—which amount to tens of trillions of dollars—constitute an actual pot of money available for lawmakers to spend today, there will be no end to the number of ways lawmakers find to spend it. The New Parents Act invites Congress to spend resources the country simply does not have, making America's dire fiscal predicament even worse than it already is.

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NOTES

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