Does Paid Leave Promote Employment Stability?

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The stability and quality of employment had been declining for certain U.S. workers long before the current economic crisis emerged. In the late 20th century, rates of involuntary job loss and part-time work increased while the availability of employee benefits, such as paid leave and health insurance coverage, declined (Boisjoly, Duncan, and Smeeding 1998; Fligstein and Shin 2004). These changes were concentrated among workers without a high school diploma, for whom relative employment rates, weekly hours, and hourly wages all declined (Fligstein and Shin 2004; Gottschalk and Danziger 2005; Keys and Danziger 2008), while the likelihood of experiencing unstable employment and long periods of nonemployment increased (Wood, Moore, and Rangarajan 2008; Keys and Danziger 2008; Johnson and Corcoran 2003).

An important question is whether characteristics of low-skilled jobs, such as wages, benefits, and hours, promote job retention by offering employees the financial and time flexibility to balance family and work responsibilities. A relationship between job characteristics and job retention might result purely from selection; that is, workers with lower levels of human capital are less likely to find good quality jobs and to be stably employed. Yet, studies that carefully control for education and other individual-level characteristics find evidence that certain employee benefits directly affect the propensity for workers to retain or lose a job. For instance, "job lock" describes the phenomenon of employees being less likely to leave a job that provides health insurance coverage (e.g. Bansak and Raphael 2008; Bradley et al. 2007).

This study examines whether employee access to paid sick or vacation leave is associated with the probability of job retention. Paid leave is understudied relative to other job characteristics yet it is theoretically plausible that workers with paid leave are better able to address both routine and urgent family issues without having to quit a job or risk being fired. In fact, this is one of the compelling, but unsubstantiated, arguments in favor of several current state and federal initiatives aimed at mandating employers to provide paid leave.

Data

I use two panels of the publicly-available Medical Expenditure Panel Survey – Household Component (MEPS-HC; http://www.meps.ahrq.gov), a nationally-representative study of households focused on health care utilization. While not the survey's primary focus, the MEPS-HC is well designed to examine patterns of employment. Sample households are interviewed five times over the course of two years and the respondent reports on the employment status of each adult member in the household. Questions about employment focus on the characteristics of the current position—including wage rate, weekly hours, benefits, size of firm, and industry codes—as well as any changes to employment since the last interview. In addition, the MEPS-HC collects a range of information about demographics and family relationships. The analytic sample includes adults 18-65 years of age who worked in at least two rounds of the MEPS-HC data collection period.

Methods

Barring a randomized experiment, the identification of a causal relationship between access to benefits and job retention must tackle the nonrandom process of selection into jobs. Table 1 illustrates this problem by showing population estimates of worker and job characteristics as a function of having access to paid leave. On average, workers without paid leave are younger, less educated, and more likely to be Hispanic and never married. In addition, their jobs are shorter in tenure and provide much lower wages, on average, and they are more likely to work

for small businesses. These and other unmeasured differences between workers with and without leave have the potential to bias any estimate of the relationship between access to paid leave and retention. In addition, many nonexperimental estimation strategies cannot separate the effect of paid leave on job retention from the effect of job tenure on access to paid leave (simultaneity).

The identification strategy for this study is two-fold. First, I estimate logistic regression models predicting the probability of retaining a job in subsequent rounds of data collection as a function of access to paid leave and other job characteristics in the current round. Specifically, the estimation model is:

$$(1) \qquad Y_{it+r} = \beta_0 + \beta_1 PL_{it} + \beta_2 T_{it} + \mathbf{J}_{it}'\beta_J + \mathbf{X}_{it}'\beta_x + \varepsilon_{it}$$

Y is a binary variable indicating whether the individual *i* retained their time *t* job in time *t+r*, where r indicates data collection rounds approximately 5 months apart. With five waves of data collection in the MEPS-HC, *r* varies from 1 to 4. PL is a binary variable indicating whether individual *i* had access to paid leave during period *t*. T represents the length of time individual *i* held the job at period *t,* an important control because paid leave and other employee benefits are often conferred on employees only after a probationary period. The vectors **J** and **X** represent job and demographic control variables respectively. ε_{it} is a random disturbance term.

The logistic regression estimates are vulnerable to bias from characteristics associated with selection into jobs that are not measured in the MEPS-HC data. For example, if workers with chronically ill children seek out jobs with paid leave and are less likely to change jobs the coefficient on paid leave might be biased upward. The second set of estimation models are identical to (1), but also include individual-level fixed effects. This approach leverages the within-person variation in access to paid leave and job retention over the study period, thereby controlling for unmeasured time-invariant factors that might bias the logistic regression estimates.

Preliminary Results

Table 2 presents coefficients, standard errors, and marginal effects from models predicting job retention in future rounds as a function of access to paid leave (sick or vacation) in a current job. Each column reports results from a separate regression, all of which control for the set of worker and job characteristics shown in Table 1. According to these results, access to paid leave in time *t* is associated with an approximately 6 percentage point increase from the base probability of 88% in the probability of retaining the same job in the next round, 5 months later. This marginal effect doubles in size when predicting retention 4 rounds, or 20 months, later.

One hypothesis I considered was whether this effect would be stronger for women or unmarried workers, both of whom might be more likely to quit or lose jobs due to their own or a child's illness. However, models that included interaction terms between access to paid leave and gender or marital status found no evidence that either characteristic moderated the relationship between paid leave and job retention.

Person-level fixed-effects models were estimated to control for time-invariant characteristics, which were not measured in the MEPS-HC but might covary with both access to paid leave and job tenure. When predicting retention in the next round, the coefficient on paid leave decreases 40 percent in size to approximately 0.29, but remains statistically significant, indicating that selection may bias the logistic regression estimates upwards, but that the association is robust to the added controls.

Conclusions and Next Steps

Preliminary results indicate that access to paid leave is associated with greater employment stability, even after controlling for a set of observed and unobserved worker and job characteristics associated with selection into employment and job quality. The identification strategies do not address time variant characteristics that may be driving the association or the possibility that the causal relationship is actually between job tenure and paid leave rather than the reverse. In future analysis, I will consider variables that might serve as instruments for access to paid leave, including firm size, industry, and region. If such factors are associated with variation in access to paid leave that could arguably be described as random, estimating instrumental variable models could address the remaining threats to selection and simultaneity bias. I will also examine differences in the effects of vacation versus sick leave.

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Table 1
Worker and Job Characteristics, by Access to Paid Leave in Current Job (weighted population estimates)

Characteristic	Job Provides Paid Leave[a] No	Yes
Worker		
Age	34.29	40.98**
Female	0.49	0.48
Educational attainment		
No degree	0.22	0.08**
HS diploma/GED	0.55	0.49**
College degree	0.22	0.43**
Race		
Black	0.11	0.12
White	0.82	0.81
Other	0.07	0.07
Hispanic	0.21	0.11**
Marital status		
Married	0.41	0.61**
Never married	0.46	0.23**
Widowed, divorced, separated	0.14	0.16*
Perceived health status		
Very good/excellent health	0.64	0.66*
Very good/excellent mental health	0.71	0.76**
Job		
Held job 12 months or more	0.51	0.92**
Hourly wage	$12.33	$20.59**
Full time work hours	0.51	0.92**
Health insurance offered	0.25	0.90**
Seasonal or temporary job	0.17	0.04**
50 or more employees at location	0.32	0.61**
Population proportion	0.25	0.75

Source. MEPS-HC Panels 9 & 10.
Notes. Sample includes workers 18-65 who worked sometime during the two-year study period. Observations are at person-round level.
[a]Paid leave is defined here as paid time for vacation, sickness, or doctor's appointments.
**p<.01 and *p<.05 indicating statistically significant differences between the means/proportions of the two sub-groups.

Table 2
Logistic Regression Results Predicting the Probability of Retaining Current Job as a Function of Access to Paid Leave Benefits

	Probability of retaining job			
	Next round	2 rounds	3 rounds	4 rounds
Job provides paid leave	0.508**	0.524**	0.585**	0.634**
	(0.046)	(0.053)	(0.060)	(0.066)
	[0.055]	[0.092]	[0.125]	[0.148]
N	35,554	26,935	18,232	9,723
Base probability	0.89	0.79	0.72	0.66

Source. MEPS-HC Panels 9 & 10.
Notes. Standard errors in parentheses, marginal effects in brackets. All models control for the worker and job characteristics shown in Table 1.