

THE SMALL BUSINESS BOTTOM LINE ON EARNED SICK TIME

**AN ANALYSIS OF COSTS AND BENEFITS OF EARNED SICK
TIME FOR SMALL BUSINESSES IN NEWARK**



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INTRODUCTION

Across the country, cities and states are considering proposals to establish minimum standards for earned paid sick time. One such measure, the *Worker Sick Leave Ordinance*, is being considered by the Newark City Council. This proposal would guarantee all workers in Newark the opportunity to earn time off to care for themselves or a sick family member.

The proposed law would establish a modest floor for earned paid sick time as a basic work standard, like the minimum wage. In the current version of the bill, workers would be able to earn three to five days of paid sick time, depending on the size of the firm. Workers in businesses with 10 or more employees, and all businesses in the food service or child care industries, would be able to earn up to five days of paid sick time. At smaller “Mom and Pop” businesses with less than 10 employees, workers would be able to earn up to three days of paid sick time.

Local, independent small business owners pride themselves on their close connection to their communities, customers and employees. Treating customers right and treating employees like family are small business values. In keeping with these values, many small business owners agree in principle with setting a standard for earned paid sick time but have questions about how the standard would work and what it would mean for their businesses.

This report examines small business considerations in relation to Newark’s earned paid sick time proposal and offers a review of existing research on the costs and benefits of a paid sick leave policy.

BACKGROUND

Earned paid sick time is an issue that affects a significant proportion of workers and employers across New Jersey and in Newark, including small business owners and their employees. Across New Jersey, 1.2 million workers do not have access to earned sick days. In Newark, approximately 26,973 private sector workers (30 percent) currently lack paid leave benefits of any kind (including vacation) and would be eligible to earn sick time under the new proposal.¹ About 23,000 of these workers are in businesses with 10 or more employees; about 4,000 are in businesses with fewer than 10 employees.

Lack of access to earned paid sick time disproportionately impacts businesses and their employees in low-income, Latino, and immigrant communities nationwide. The Congressional Research Service has estimated that 55 percent of Hispanic workers nationwide do not have access to earned sick time, compared to 40 percent of the overall population.² Among low-wage workers across the country, research suggests that two in three do not have access to earned sick time.

Lack of access to earned paid sick time has consequences not only for workers, but also for businesses and their customers. These consequences include impacts on workplace productivity, public health, and health care costs. Given the consequences of going without earned sick time, the proposal to establish a standard for earned paid sick time in Newark warrants careful consideration.

EARNED PAID SICK TIME: BENEFITS FOR SMALL BUSINESSES

EARNED PAID SICK TIME: EVALUATING BENEFITS FOR NEWARK SMALL BUSINESSES

Having the opportunity to earn paid sick time is clearly a benefit for workers. But offering workers this opportunity also has benefits for employers. These benefits include protecting workplace productivity, decreasing turnover and associated costs, and reducing health care costs.

Improving Health in the Workplace, Protecting Productivity and Public Health

In a 2010 CareerBuilder survey of more than 3,700 workers nationwide, nearly three quarters (72 percent) of workers reported that they typically go to work sick.³ This finding suggests a high proportion of businesses suffer productivity losses from “presenteeism” (when workers are sick on the job) in addition to risking the spread of illness, both between workers and to

customers/clients.

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economy due to illness in the workforce has been estimated at \$160 billion annually.

The loss in productivity to the U.S. economy due to illness in the workforce has been estimated at \$160 billion annually in past research, with a major portion of this lost productivity coming

from workers going to their jobs sick.⁴ When employees go to work sick, they not only fail to perform at their full potential but they also risk infecting co-workers and further harming the business’s productivity.⁵

The public health implications of this issue are serious, particularly because nationwide more than three-quarters (77 percent) of workers in food preparation/service and more than three-fifths (62 percent) of workers in personal care and service do not have access to paid sick time.⁶

When workers have the opportunity to earn paid sick time, they are more likely to stay home when they are ill, get healthy and return to work sooner, and avoid the risks of spreading illness in the workplace, including to customers.

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Improving Employee Retention and Reducing Turnover Costs

The combined expenses related to employee turnover – including the exit phase of departing employees, search and hiring phase, and training phase for new hires – add up to significant costs for businesses.⁷ Estimates range widely but are consistently reported in the thousands of

dollars (and sometimes even above \$10,000) per position.⁸ Retaining well-trained and valued employees, and thereby reducing turnover and associated costs, is a top concern for businesses of all sizes.

Allowing workers to earn paid sick time provides workers with greater security and should improve employee retention. Indeed, existing literature suggests that workers who have the benefit of paid sick time are less likely to leave their jobs than workers who do not, thereby reducing turnover and associated turnover costs.⁹

According to a December 2013 research brief by the Institute for Women’s Policy Research (IWPR), providing new earned sick time is estimated to yield benefits of \$12.7 million annually for Newark employers, with the bulk of these benefits (\$12.2 million) due to savings from reduced turnover.¹⁰

Reducing Health Care Costs

Workers’ lack of earned sick time has implications for health care costs as well. Surveys indicate that workers without earned sick time are more likely to go to an emergency room for routine medical care because they aren’t able to get time off from work to seek treatment during normal business hours. Because emergency room care is much more expensive than primary care, this high level of emergency room use raises overall health care costs significantly.

Policy initiatives that bend the health care cost curve are a key priority for stemming the tide of rising health insurance costs for businesses. Policies that promote primary care over emergency room use promise significant savings in health care costs.

A single instance of getting treatment from a primary care physician rather than an emergency room saves hundreds of dollars in health care costs. According to the IWPR briefing paper, the proposed earned sick time measure is projected to save an estimated \$1 million in health care costs in Newark by cutting down on unnecessary emergency room use. Almost half of these savings (\$420,000) are predicted for public health insurance programs – and taxpayers – as a result of making earned sick time universally accessible in Newark.¹¹

The proposed earned sick time measure is projected to save \$1 million in health care costs in Newark by cutting down on unnecessary emergency room use and an additional \$1.1 million by reducing short-term nursing home stays.

In addition, ensuring access to earned sick time is projected to further reduce health care costs by allowing workers with caregiving responsibilities to

provide short-term care for family members rather than resorting to paid care in nursing homes

or paid in-home care. The IWPR report estimates these cost savings at \$1.1 million annually in Newark.

Strengthening Economic Security and Consumer Confidence

In assessing the anticipated impacts of an earned sick time standard, another important consideration is the economic feedback loop between the small business workforce and the small business customer base. Henry Ford famously recognized that, for his auto company to be successful, his workers needed to earn enough on the assembly line to be able to buy the cars they were building. Similarly, in thriving neighborhood economies, one business's steady employee is another business's steady customer.

When employees have disposable income in their pockets and feel secure in their jobs, they have the confidence to spend that money in local businesses and boost neighborhood economies. When household budgets are stretched thin or workers don't have job security, workers lack that confidence and local businesses lose out on those dollars.

Many working families in Newark live close to this edge. Census Bureau figures show that 25 percent of families in Newark (and 34 percent of families with children under 18) are below the poverty line, and 24 percent receive food stamps.¹² This is a significant segment of the workforce that cannot fully participate in local commerce and contribute to local economies. Ensuring access to earned paid sick time would not eliminate this problem, but it would bolster job security and confidence among low-income workers, which should in turn have positive effects on small businesses and neighborhood economies.

EARNED PAID SICK TIME: QUESTIONS AND CONCERNS

EARNED PAID SICK TIME: EVALUATING QUESTIONS AND CONCERNS

In weighing the overall impact of earned paid sick time proposals on small businesses and neighborhood economies, a number of questions come into play. These questions generally relate to concerns about cost, utilization and flexibility issues.

What Will an Earned Paid Sick Time Standard Cost?

Many small business owners have practical questions about what offering earned paid sick time will cost their businesses.

The December 2013 report from the Institute for Women's Policy Research estimates the cost of implementing the earned sick time proposal in Newark, before considering benefits, at a total of \$8.5 million (\$7.7 million of this cost is for employers with 10 or more employees; less than \$900,000 is for employers with fewer than 10 employees). This is equivalent to an average of 16 cents per hour for workers earning new paid leave (17 cents per hour in businesses with 10 or more employees, 11 cents per hour in businesses with fewer than 10 employees).

When the benefits of offering earned sick time are factored into the analysis, the total employer cost of \$8.5 million is overshadowed by the employer savings of close to \$12.7 million. The IWPR report finds the net impact for employers is a savings of an estimated \$4.1 million.¹³

While detractors of an earned paid sick time proposal argue that the costs will have a negative impact on jobs, the evidence does not support this claim.

In Seattle, where a citywide standard took effect in September 2012, the preliminary data found there were 7,200 more retail jobs and 3,200 more food service and drinking places jobs in King County during the first seven months of 2013 than for the same period in 2012. The report also found that, in the year following the law's implementation, Seattle maintained its historically high share of King County business, including in the retail and food services sectors.¹⁴

Offering paid sick days did not have a negative impact on business in Seattle as big business lobbyists opposing the measure claimed. Instead, businesses grew, hired more workers, and even began to offer sick days in locations outside Seattle.

Similarly, economic research on the impact of raising the minimum wage has shown that such increases do not have a negative effect on employment.¹⁵ Since the cost of offering new earned paid sick time is significantly less than the typical minimum wage increase, it is reasonable to conclude that it will not have negative effects on employment, either.¹⁶

How Much Earned Sick Time Will Employees Take?

Closely related to concerns about cost is the question of how much time workers who earn paid sick days will actually use. Inflated cost estimates generally assume workers will use all accrued days. But actual utilization figures tell a different story.

Nationally, workers with access to paid sick time use an average of 1.7 days a year in small firms and 2.0 days a year in large firms.¹⁷ In a 2009 survey about utilization of paid sick time in San Francisco (which passed a citywide paid sick time ordinance in 2007), the median utilization was just three days. Furthermore, more than a quarter of workers surveyed in San Francisco did not use any paid sick days in the previous year.¹⁸ According to a new report from the Bureau of Labor Statistics, workers participating in plans with a fixed number of paid sick days per year used an average of two or four of their sick days annually, depending on their industry.¹⁹

These utilization numbers underscore an important reality: workers treat paid sick time as a form of insurance, to be saved and used when it is truly needed. Although some opponents of sick time proposals point to individual cases where a worker misused sick time, the findings from San Francisco and across the country show that such misuse is rare. The data suggest that workers save up their earned sick time to be used when they really need it and many use quite little time in a given year.

2.09 =
*the number of sick days employees in Newark
are estimated to use annually for sick time
and doctor visits*

Will There Be Flexibility for Small Businesses?

Earned paid sick time proposals seek to address the varying needs of different businesses in a number of ways. In Newark, the Worker Sick Leave Ordinance seeks to provide additional flexibility for small businesses through a reduced sick time requirement. Core provisions of the proposal include:

- Workers will accrue one hour of earned sick time for every 30 hours of work; earned sick time can be taken to care for themselves or a sick family member.
- Workers in businesses with 10 or more employees (and all child care, home health care, and food service workers) will be able to earn up to a maximum of 40 hours (five days) of sick time per year.

- Workers in businesses with fewer than 10 employees will be able to earn up to a maximum of 24 hours (three days) of sick time per year.
- Employees will only be able to start using accrued earned sick time 90 days after starting a new job, effectively excluding most seasonal employees.
- Employers who already have a paid leave policy (eg, paid time off policy) that allows employees to take time off for the same purposes and under the same conditions as the proposed measure will be able to count their existing policies toward the earned sick time standard; employers who already offer enough paid leave to meet the ordinance's annual accrual requirements will not have to offer additional time.
- Accrued earned sick time cannot be "cashed out" at the end of employment.

Together, these provisions narrow the scope of Newark's earned sick time proposal, ensure flexibility for employers, and seek to accommodate the particular needs of smaller and family-owned businesses.

Why are Some Groups Opposed to an Earned Paid Sick Time Standard?

Many opponents of paid sick time claim to be defending the interests of small businesses. In reality, groups that are leading efforts to block an earned paid sick time proposal in Newark and statewide represent bigger corporate interests more than they represent local small business interests. Some of the larger companies that are part of these groups already offer paid sick time to their employees. Other big-name chains that turn major profits but don't provide paid sick time to all their workers hide their interest in blocking a sick time standard behind arguments about small businesses.

Local, independent small business owners pride themselves on their close connection to their employees and to their local communities. Treating employees like family is a small business value. This value, more than the narrow interests of multi-national corporations, should guide policy decisions about issues like earned paid sick time.

The experience of San Francisco, the first place in the United States to adopt a paid sick time law, is instructive in regard to businesses' views. While the law there was greeted with trepidation when it passed, two-thirds of San Francisco businesses in a 2010 survey said they support the law.²⁰ And business groups that were once skeptical now see the law differently: as the executive director of the Golden Gate Restaurant Association put it, "paid sick days is the best public policy for the least cost."²¹

CONCLUSION

Careful review of the evidence suggests that a flexible earned paid sick time standard, like the one currently proposed in the *Worker Sick Leave Ordinance* in Newark, will be a win-win policy for workers, small businesses, and the local economy.

Newark's local, independent small business owners want to do right by their employees. Good public policy can help them accomplish this goal. Establishing a standard for earned paid sick time in Newark is not just good policy for workers and families. It makes good business sense, too.



About NJ Main Street Alliance

The NJ Main Street Alliance is a statewide advocacy network of local, independent small business owners. NJ Main Street Alliance works on public policy issues that matter to local small business owners and the communities they serve. NJ Main Street Alliance is a project of New Jersey Citizen Action and a member of the national Main Street Alliance network.

ENDNOTES

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