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Testimony before the Labor and Public Employees Committee

Re: SB 913 – An Act Mandating Employers Provide Paid Sick Days to Employees

Submitted by Michael Winterfield, Connecticut Working Families

March 1, 2011

I worked for many years in corporate America as a life insurance company actuary and executive

officer. I headed up Annuity Product Development for three major US life insurance companies. I had bottom line responsibility for the products that I developed.

As a retired corporate guy, I understand the immense challenges that business folks face to make an appropriate profit. Businesses have many substantial cost pressures (e.g., covering major rent increases when their current leases expire); I have seen this happen in West Hartford Center. By comparison, I am disappointed at the "pennywise, pound foolish" opposition to Paid Sick Days (PSD) legislation. Paid Sick Days are a critically important health care benefit. They also make very good business sense. The net costs are negligible, even in a worst case analysis.

You have heard many of the reasons why proponents of this measure support it. You have also

heard opponents say it would be costly to businesses. I would like to hone in on that point. When

I take a close, hard look at the actual numbers, this is what I have found:

- Paid Sick Day gross costs will be relatively minor. Depending on the type of firm and the % of

total operating costs that is represented by payroll, I believe the maximum gross impact is a 0.3%

to 0.5% increase in total operating costs. In short, we are talking about less than a one-half of one

percent gross cost increase.

- Paid Sick Day costs should generally be offset by lower employee turnover and greater employee

productivity.

- Furthermore, there are many easy ways for employers to absorb these costs through very minor

price increases or very minor savings in other areas.

The Institute for Women's Policy Research has carefully studied the economic considerations. Ph.D

Vicky Lovell's 2005 study "*Valuing Good Health: An Estimate of the Costs and Savings of the Healthy*

Families Act" calculates the small incremental costs and the offsetting savings. A subsequent February, 2011 study "*San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers*" reinforces these findings. This report provides survey results of 727 SF employers. (The San Francisco Ordinance requires small firms (<10 employees) to provide 5 paid sick days; larger employees must provide 9 days.)

I would highlight two compelling findings in the 2005 Lovell study:

- Average utilization was just 3 days for a 7 PSD benefit as recommended by the Healthy Families

Act. (I would accordingly estimate 2.5 days utilization for a 5 day benefit under SB 913.)

There are always going to be a few shirkers, but in reality most workers do not abuse their sick

Days. Most workers know what it takes to hold on to a decent job and what it takes to get to the

next level. They also know that they need to save their sick time for when they are actually sick or have a family medical emergency.

The San Francisco study confirms this common sense. Covered workers in small firms used an average of 2.2 days per year. Workers in larger firms used 3.1 days per year. Furthermore, over 25% of workers took no sick days off at all.

- Companies that provide PSD average about 5% less turnover than companies that do not provide

PSD. Lovell's study shows that turnover costs (Human Resources department costs, etc.) typically run at about 25% of payroll for hourly workers. A 5% reduction in turnover accordingly results in a 1.25% of payroll savings (which more than covers the costs of 2.5-3 paid sick days per year).

The reasons for reduced turnover should be intuitively obvious. Businesses that treat their employees with dignity establish better morale and increased productivity. Employees respect employers who respect their employees' maturity and their need to stay at home when they are sick.

Example (SB 913 Costs)

It will be helpful to give a quantitative example of the limited costs.

- Consider a $10 per hour employee working 7.5 hours per day (250 days per year). This equates

to $18,750 per year.

- 2.5 paid sick day utilization would cost $187.50. 3 days would cost $225.

- These utilization rates would convert to a mere 1.0 – 1.2% of payroll for workers subject to the

SB 913 requirements.

- Payroll costs are just one element of overall operating costs. For example, if covered payroll

is 30-40% of overall costs, the SB 913 costs would represent just 0.3 – 0.5% of total operating costs.

Needless to say, no employer will be pushed to the brink of ruin with costs of this nature.

Businessmen routinely raise prices to cover minor cost increases. For example, a $20 dinner price

at a nice restaurant could be increased to just $20.06 - $20.10 to accommodate a 0.3 – 0.5% cost

increase. It is disingenuous for businessmen to deny their pricing power. As an actuary, I was

responsible for the product design and pricing of $ billions of annuity sales. We automatically built

all costs into our pricing models.

The SF study includes other compelling findings:

- "Research following the 2009 H1N1 pandemic in the United States suggested that more than one quarter of private sector employees who contracted the disease did so because of others coming to work while infected."
- Approximately 6 of every 7 employers reported no reduction in profitability as a result of paid sick day coverage.

I thank the Labor and Public Employees Committee for giving me the opportunity to testify.