WHY PAID FAMILY LEAVE IS GOOD BUSINESS

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Many private-sector organizations in the US are taking a new look at paid family leave—paid time off to enable employees to care for a new child or an ill family member. While overall coverage in the US is low, increasingly diverse companies are starting to see a compelling business case for providing or expanding these benefits. This report builds on BCG’s examination of the family leave policies of more than 250 companies, as well as in-depth interviews with 25 HR leaders at large organizations and with representatives of business groups and other stakeholders.

Over the last two years, a growing number of organizations have expanded or have begun offering paid family leave benefits to their US employees. But overall coverage in the US is low and uneven.

- The US is one of just eight countries—and the only member of the Organisation for Economic Co-operation and Development—with no national policy mandating paid maternity leave for workers. This is the case despite broad consensus on the policy’s benefits for workers and the growing need and demand for paid family leave.

- With changing workforce demographics and caregiving arrangements, the need for paid family leave is increasing. The number of dual-income households is rising, and as the population ages, more and more workers are caring for ill or elderly family members. These trends create additional impetus for employers to develop policies that recognize and support the realities of employees’ lives outside of work.

- In the absence of a federal policy, it is employers that decide whether to offer paid family leave and how much. Currently, only 14% of the US workforce is covered by an employer-sponsored paid family leave program. Workers in the highest income quartile are three and a half times more likely to have access to paid family leave than those in the lowest income quartile.
While employers in high-wage industries, such as technology, financial services, and professional services, have been first movers in offering paid family leave, companies in a variety of other sectors, and even a government agency, have also recently adopted such policies or enhanced existing ones. Examples include Hilton, IKEA, Union Square Hospitality Group, and the US Department of Defense.

The most current research and our interviews with companies providing paid family leave show that the policy offers significant benefits not only to workers and their families but also to employers.

- Paid family leave policies can boost employee retention, reducing turnover costs and helping to diversify company leadership teams. After Google, Accenture, and Aetna enhanced their policies, attrition of female employees following the birth of a child decreased significantly.

- Paid family leave can improve a company’s ability to attract talented employees. For some, it can serve as a differentiator in industries where paid family leave is uncommon. For others, paid family leave is table stakes in attracting talent from industries such as technology, where such policies are more common.

- By demonstrating a commitment to employees and their families, paid family leave policies are a powerful way to reinforce a company’s values, aligning them with employee benefits and the employee experience.

- Paid family leave policies lead to improvements in employee morale, engagement, and productivity. One study found that more than 80% of companies that offered paid family leave saw a positive impact on employee morale, and more than 70% reported an increase in productivity.

- New and enhanced paid family leave policies tend to attract significant attention from the media, burnishing a company’s reputation.

Though the benefits can be hard to measure, companies report that the payoff from offering paid family leave exceeds the costs. And companies report that they are able to manage the costs of their programs through thoughtful design.

- Among companies that have implemented such policies, paid family leave has generally helped or had no effect on their bottom line. The companies we studied reported a positive return on investment, particularly relative to other benefits they could provide.

- Companies are often able to manage the labor costs associated with paid family leave by using existing employees to cover for workers on leave, rather than bringing in temporary workers. Indeed, most employers report that shifting work to other employ-
ees is the approach they use most often. Studies show that in the majority of cases, employees experience no negative effects stemming from colleagues taking time off.

- Companies are designing programs to fit their business context and workforce needs through careful decision making about when leave can be taken, for how long, and the amount of pay that employees on leave will receive.

**Our research suggests that there are five main imperatives in designing a paid family leave policy.**

- The policy should reflect the company’s values. Recently, there has been a trend toward more inclusive policies—providing equal amounts of leave for male and female parents, covering birth, adoption, and surrogacy, and covering both salaried and hourly workers. A few companies also provide paid leave to care for an ill family member, ensuring that all employees—and not just parents—have equal access to the benefit.

- Keep in mind that the amount of leave is not the only value driver. The recent trend is toward more time off, but flexibility—offering nonconsecutive weeks off, for example, or the option to take a longer leave at less pay—can sometimes be just as important to employees.

- Company leaders should set the standard by encouraging the use of the policy and taking time off themselves when they need it. As visible champions, they can foster a sense of normalcy around paid family leave and let employees know that they will be supported when they take advantage of it.

- Support systems are crucial, both for those on leave and for those covering for them while they are gone. These can include HR processes and checklists for managers handling leaves, and systems to help employees ramp down before they go on leave and ramp up once they return.

- Just a small number of metrics are needed to measure the success of a policy. These can include statistics on usage, employee replacement costs, retention rates among employees who have taken leave, and employee perceptions of the program.
A growing number of companies are moving to provide paid family leave for their US employees—and they’re not all in industries you might expect. In addition to technology, financial services, and professional services firms, such organizations include food and beverage manufacturers, retail and food services companies, and even a government agency. Moreover, while paid family leave has traditionally been available only to birth mothers, companies are now making their policies much more expansive (covering all types of employees) and inclusive (covering all parents, all types of families, and a variety of personal events, such as the illness of a family member).

The employers we reviewed all see clear business benefits in providing paid leave.

While the trend toward providing paid family leave—either for the first time or with improvements to an existing policy—is well documented, it is not always clear why these organizations have decided to offer this benefit to their workers. To better understand this phenomenon, BCG examined policies across more than 250 companies and conducted interviews with 25 HR leaders at large organizations, as well as with representatives from business associations, advocates of paid family leave, and union leaders.

We found one common thread among the employers we reviewed: they all believe that paid family leave is good for their workers—and they see clear business benefits in providing it. They find that it makes employees more likely to remain with the company following critical life experiences, such as having a child or caring for an ill family member, and that it helps the company cultivate better employee talent, engagement, morale, and productivity. Paid family leave is also a way for companies to signal their values—their commitment to inclusion and diversity or overall support for their employees and a balanced work-family life. The benefit confirms those values internally and can also burnish the company’s brand externally. Moreover, the employers we studied have found ways to manage the costs of paid family leave through thoughtful design.

Certainly, not every organization will conclude that it makes sense to cover the costs of paid family leave, and a national policy would almost certainly be required to provide full and equal access to paid family leave for all US workers. But there is mounting evidence that those that do stand to reap sizable and lasting benefits.
The terminology associated with paid leave can be duplicative and confusing. For the purposes of this report, disability leave is defined as paid leave provided by an employer (through disability insurance) while an employee recovers from a nonwork-related short- or long-term disability, such as childbirth. Maternity/paternity/parental leave is provided to the mother or father at the time of a child’s birth (by either the biological mother or a surrogate), adoption, or foster care placement. Primary- and secondary-caregiver leave is the gender-neutral term for maternity/paternity leave, with the designated primary caregiver typically receiving a longer period of leave than the secondary caregiver. Paid family leave covers parental leave but is also provided to care for a family member with a qualifying illness. The US Bureau of Labor Statistics defines paid family leave as “leave [that] may be available to care for a newborn child, an adopted child, a sick child, or a sick adult relative. Paid family leave is given in addition to any sick leave, vacation, personal leave, or short-term disability leave.”
THE CHANGING DYNAMICS OF PAID FAMILY LEAVE

In the US, it is primarily employers that determine whether employees have access to paid family leave—paid time off to care for a new child or an ill family member. Though coverage in the US has been low and uneven to date, in large part because no national policy exists, an increasing number of companies across a variety of sectors are now moving to offer these benefits.

Absent a Federal or State Policy, Paid Family Leave Is Employer Driven

The US is one of just eight countries—and the only member of the Organisation for Economic Co-operation and Development—with no national policy mandating paid maternity leave for workers. According to the World Policy Analysis Center, the only other countries that don’t have this benefit are Papua New Guinea, Suriname, and five island nations in the Pacific. Meanwhile, there is widespread consensus on the benefits of the policy for workers and their families. (See the sidebar “The Impact of Paid Family Leave on Workers and Families.”)

To date, only three US states (California, New York, and Rhode Island) have implemented paid family leave programs, and five states (California, Hawaii, New Jersey, New York, and Rhode Island) guarantee workers’ access to paid temporary disability leave. In the rest of the country, the only related benefit is provided by the Family and Medical Leave Act, which ensures 12 weeks of job protection—but not pay—for some employees of companies with a workforce of more than 50. Consequently, whether to provide wages during family or medical leave is left to employers to decide.

Only 14% of the US workforce has access to employer-sponsored paid family leave in order to care for a new child or a sick family member. Coverage has increased just 3 percentage points, from 11% to 14%, since 2010, and the coverage that is available is concentrated among certain segments of workers. Workers in the highest income quartile are three and a half times more likely to have access to paid family leave than those in the lowest income quartile. Similarly, coverage is three times greater among full-time workers than among part-time workers. (See Exhibit 1.)

These disparities are particularly noteworthy because—while all employees stand to benefit from paid family leave policies—low-income and part-time employees are likely to gain the most. Indeed, in the US Census Bureau’s 2011 American Time Use Survey, approximately 20% of workers earning $830 or less per week reported not taking leave during a week when they needed it because they couldn’t afford it, compared with ap-
THE IMPACT OF PAID FAMILY LEAVE ON WORKERS AND FAMILIES

Much of the research to date on paid family leave has focused on parental leave, which has been shown to have far-reaching benefits for infants and families. It is associated with lower infant and post-neonatal mortality rates, higher immunization rates, and a greater likelihood that the mother will breastfeed for a longer period. One study even suggests that the children of women who take maternity leave are more likely to finish high school and have higher earnings decades later.¹

Longer maternity leaves, specifically, are associated with fewer symptoms of maternal depression after the birth of a child. Paid maternity leave has also been shown to increase the number of women in the workforce and to improve their average wages. This benefit likely stems from the fact that women who have access to paid leave are more likely to take time off (or more time off) and are less likely to drop out of the workforce altogether as a result.²

Paid leave for nonbirth parents, meanwhile, gives them more time to bond with their child, which may improve his or her mental development.³ In addition, it has been shown that paid paternity leave enables women to return to work more quickly, increasing their participation in the workforce.⁴ Notably, men are unlikely to take leave at all unless it is paid.⁵

Paid leave may also reduce family stress in the important early part of a child’s life. This includes stress resulting from financial pressures, since parents who take paid leave are less likely to need federal assistance in the first year after a child’s birth than those who do not.⁶

As the US population ages, paid family leave may have an important protective effect on the earnings of older workers who are juggling a paid job and (unpaid) care for a family member. One study has suggested that adults over the age of 50 who leave the workforce to care for an aging parent lose more than $300,000 in income, Social Security benefits, and retirement savings.⁷

NOTES
6. Houser and Vartanian, “Pay Matters.”
proximately 6% of workers earning more than that amount.\textsuperscript{2}

**Demand Is Increasing**

Three shifts have caused an uptick in demand for paid family leave policies. First, far fewer families have a stay-at-home parent who can care for a newborn or newly adopted child or an ill family member. Indeed, among women with children under the age of 18, more than 70% are in the labor force, compared with less than 50% in the mid-1970s.

The increasing participation of women in the workforce has contributed to changes in caregiving, and particularly in parenting. For example, the Families and Work Institute’s National Study for the Changing Workforce found that among men working more than 20 hours per week in 1977, 74% agreed that they should be the earners and that women should care for the children, compared with only 40% in 2008.\textsuperscript{3} And while most studies suggest that household labor is still divided along gender lines, a 2015 study by the Pew Research Center found that in households in which both parents work full time, the distribution of domestic labor is more equal than in those in which the mother is unemployed or working part time. Moreover, for the majority of couples in which both parents work full time, the career of neither spouse takes precedence over the other’s.\textsuperscript{4}

Finally, an increasing portion of the workforce is helping to care for aging parents—a trend that is only expected to intensify. Indeed, the American Time Use Survey found that in 2013 and 2014, approximately 16% of the population was caring for someone over the age of 65. Within this group, nearly 45% were providing care daily or several times a week, and more than 20% were also caring for children younger than 18.\textsuperscript{5}

The bottom line: there are fewer households with a full-time caregiver, both parents are increasingly involved in caring for their children, and the burden of caregiving overall is growing.

**Diverse Industries Are Responding**

The movement to offer or expand paid family leave began in industries such as technology, financial services, and professional services, where competition for small pools of talent, and hence salaries, are both high. These com-

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**EXHIBIT 1 | Paid Family Leave Coverage in the US**

<table>
<thead>
<tr>
<th>Year</th>
<th>Lowest-paid workers</th>
<th>Second-lowest-paid workers</th>
<th>Third-lowest-paid workers</th>
<th>Highest-paid workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>11%</td>
<td>12%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>2011</td>
<td>12%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>2012</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>14%</td>
</tr>
</tbody>
</table>


**Note:** Includes workers in the private nonfarm economy (excluding private households) and public-sector workers (excluding the federal government).
petitive dynamics, as well as typically high levels of profitability, have encouraged companies in these sectors to provide generous benefits and to match those of competitors. For example, according to data from the Bureau of Labor Statistics, paid family leave coverage in finance, insurance, and information, as well as in professional, scientific, and technical services, grew by more than 10 percentage points from 2010 to 2016. While coverage is still low even in these sectors—no more than 40% in 2016—the percentage of workers able to take advantage of such policies is significantly higher than in other industries. (See Exhibit 2.)

That said, over the past two years, paid family leave has been gaining ground in sectors with lower average wages, such as manufacturing, accommodation and food services, and retail. The policies now offered by companies such as Hilton, Union Square Hospitality Group, and IKEA, among others—as well as by companies in technology, financial services, and professional services—also tend to be more equitable and generous than policies that were typically offered in the past. (See Exhibit 3.) Many provide equal time off to men and women, and most also cover their entire US workforce—that is, both hourly and salaried workers, regardless of job function.

Notes
1. New York State has passed a bill providing paid family leave to workers, but it will not be implemented until 2018. The District of Columbia has passed a paid family and medical leave bill, which is expected to begin providing benefits in 2020.

EXHIBIT 2 | As Wages Increase, So Does Paid Family Leave Coverage

Coverage (%)

50
40
30
20
10
0

Average annual wage ($)

100,000
50,000

Finance and insurance
Information
Professional, scientific, and technical services
Health care and social assistance
Wholesale trade
Utilities
Real estate and rental & leasing
Construction
Administrative and support and waste management and remediation services
Educational services
Transportation and warehousing
Other services
Retail trade
Accommodation and food services
Manufacturing

Coverage up 10+ percentage points since 2010
Coverage up 2–9 percentage points since 2010
Coverage up 1 or <1 percentage point since 2010
Bubble size = relative number of employees

Note: Paid family leave coverage data for the private sector; national average includes public-sector workers (excluding the federal government).
**EXHIBIT 3 | Companies in Diverse Sectors Have Begun Offering More Generous Family Leave Coverage**

<table>
<thead>
<tr>
<th>Source</th>
<th>New Policy</th>
<th>Original Policy</th>
<th>Policy Change</th>
</tr>
</thead>
</table>
| **DEPARTMENT OF DEFENSE** | - 12 weeks of disability leave for birth mothers  
- 10-day paternity leave | - 6 weeks of disability leave for birth mothers  
- 10-day paternity leave | |
| **DISCOVERY COMMUNICATIONS** | - 12 weeks of parental leave (plus 6 to 8 weeks of disability leave for birth mothers)  
- 12 weeks of leave to care for an ill family member | - 6 to 8 weeks of disability leave for birth mothers  
- 4 weeks of parental leave | |
| **HILTON** | - 10 weeks of leave for birth mothers  
- 2 weeks of leave for all other parents | - Partially paid maternity leave (for some employees) | |
| **IKEA** | - 12 to 16 weeks of parental leave depending on tenure (plus 6 to 8 weeks of disability leave for birth mothers)  
- First half of parental leave is at full pay, second half at half pay  
- All hourly workers covered, regardless of hours worked | - 6 to 8 weeks of disability leave for birth mothers  
- 1 week of parental leave | |
| **JOHNSON & JOHNSON** | - 8 weeks of parental leave (plus 6 to 8 weeks of disability leave for birth mothers)  
- 1 week of “work, personal, family” leave | - 6 to 8 weeks of disability leave for birth mothers  
- 1 week of parental and 1 week of “work/family” leave | |
| **RACETRAC** | - 8 weeks of primary-caregiver leave (headquarters staff only; disability leave run consecutively)  
- 2 weeks of secondary-caregiver leave (headquarters staff only) | - Voluntary short-term disability leave for birth mothers (employee paid) | |
| **UNION SQUARE HOSPITALITY GROUP** | - 4 weeks of full pay, 4 weeks of 60% pay parental leave (disability leave run consecutively)  
- Expanded policy to cover all workers, including hourly | - Paid parental leave (pilot at headquarters)  
- Voluntary short-term disability leave for birth mothers (employee paid) | |

**Sources:** Company announcements; press; BCG interviews.

**Note:** Parental and primary-/secondary-caregiver leave apply to all types of parents (fathers, adoptive parents, etc.). Many policies are contingent on an employee’s working for the organization for a certain period of time (such as six months or a year); most policies do not cover bargaining (union) workers, whose contracts are negotiated independently.

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While it’s not a surprise that paid family leave is good for workers, we found that these policies are also good for business. We found that paid family leave can deliver significant rewards that outweigh the costs. These include improved employee retention, the ability to attract the best talent, reinforced company values, improved employee engagement, morale, and productivity, and enhanced brand equity. (See Exhibit 4.)

**Exhibit 4 | Five Benefits of Paid Family Leave**

- **Improved Employee Retention**
  - Women with paid family leave are 93% more likely to be working one year after the birth of a child than those who take no leave
  - After improving their policies, Google, Accenture, and Aetna saw a reduction in attrition of female employees following the birth of a child

- **Better Talent Attraction**
  - In a Deloitte survey, 77% of workers said that paid family leave could sway their choice of employer

- **Reinforced Company Values**
  - Reinforcing the organization’s values is the benefit of an improved paid family leave policy most frequently cited by the company leaders we interviewed

- **Improved Employee Engagement, Morale and Productivity**
  - In an EY survey, more than 80% of companies with paid family leave reported a positive impact on morale
  - More than 70% also reported a boost in productivity

- **Enhanced Brand Equity**
  - Improving a paid family leave policy tends to attract significant attention in the media, which can burnish a company’s brand
  - This can be particularly true for early movers in an industry or for companies offering a new or more expansive policy

*Source: BCG interviews and analysis.*
Employee Retention

Talent retention is one of the primary reasons cited by employers to provide paid family leave. According to one study, women who take paid leave are 93% more likely to be in the workforce 9 to 12 months after a child’s birth than women who take no leave.\(^1\) Unpaid leave, too, can help women return to work, but its effect is likely not as strong, since the ability to take advantage of such a policy may be limited by financial needs.

Importantly, paid leave also makes it more likely that women will return to work for the same employer. When Google increased its paid maternity leave program from 12 to 18 weeks, the rate of female turnover after maternity leave was reduced by 50%. Similarly, after it extended paid leave from 8 to 16 weeks, Accenture saw a 40% decrease in female attrition following the birth or adoption of a child. And when Aetna expanded its maternity leave policy, the percentage of women returning to work jumped from 77% to 91%.\(^2\)

These retention benefits hold for low-wage workers as well. A study in California found that among employees in “low quality” jobs—positions paying less than $20 per hour and offering no health benefits—nearly 83% of those who used the state’s paid family leave returned to their same place of employment. In contrast, 74% of those who did not take advantage of the policy returned to their employer after a family leave.\(^3\)

Public-sector organizations are also using paid family leave to retain women. The US Department of Defense, for example, leveraged the private sector’s experience to make the case for expanding its disability leave for birth mothers from 6 to 12 weeks, in part to retain women in the armed forces. (See the sidebar “Department of Defense: Finding New Ways to Attract and Retain Women.”)

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**DEPARTMENT OF DEFENSE**

**Finding New Ways to Attract and Retain Women**

When Brad Carson took on his role as Under Secretary of Defense for Personnel and Readiness, he knew that the Department of Defense had a challenge attracting and retaining women. “Women account for 20% of the armed forces, and that number has stagnated over time,” said Carson, who left the DoD in 2016 and is now a BCG advisor. “After their first term of service, women leave the military at rates 30% to 50% higher than men do.”

Parental leave became a major priority for Carson. At the time, the DoD was providing six weeks of paid leave for birth mothers through its disability leave program. Under the laws that govern the DoD, the department can expand disability leave, but it needs congressional approval to expand paid time off.

In exploring the case for expanding leave for birth mothers, Carson turned to the private sector. “We knew that when Google expanded its parental leave policy, it saw the retention rate of women after maternity leave increase by 50%. That was exactly the kind of change we were looking for, and it provided a clear economic rationale for making this move. Yes, we would lose a little bit of productivity while women were out, but if that helped them stay in their roles longer, it was worth it.”

In January 2016, the DoD expanded its disability leave policy to 12 weeks for birth mothers, alongside other initiatives to support families in the military. These programs include increasing the hours that DoD-subsidized child care centers are open and piloting an egg- and sperm-freezing program for those who want to delay childbearing. While it’s too early to confirm the benefits of these programs on employee retention and talent attraction, Carson feels confident that they will make a positive difference.
**Talent Attraction**

As demand grows for paid family leave, it’s not surprising that such policies are an increasingly popular differentiator for companies looking to attract the right talent. Indeed, in a 2016 survey by Deloitte, 77% of workers with access to benefits reported that the amount of paid parental leave had some influence on their choice of one employer over another.4

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The policies are a differentiator for companies looking to attract the right talent.

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As more and more employers provide paid family leave, they create pressure on others to do the same. Companies facing intense competition for talent from companies in fields like technology have already started to experience this dynamic. Robin Benoit, managing director and head of global benefits at State Street Corporation noted, “Having a strong parental leave policy is aligned to what we’re trying to do culturally. We want to be a positive place for working parents. The competition for talent is fiercer than ever, and we recognize that a broader and more innovative set of benefits is necessary to bring in that quality talent.”

Today, this way of thinking about paid family leave applies primarily to those recruiting from very specific talent pools. But that is changing—and the pressure could build further as increasingly diverse companies start to adopt paid family leave or improve existing policies.

**Reinforced Company Values**

For many companies, expanding paid family leave is driven by a set of values and a desire to reinforce them throughout the organization. As Lisa Blair Davis, vice president of global benefits at Johnson & Johnson, told us, “In our credo, we talk about responsibility to our employees. We believe that family comes first and are pleased to offer family benefits which show our strong support for the modern family, no matter what shape that family takes.” Paid family leave can thus signal a company’s commitment to its employees. Further, it can enable a company to show its support for diversity and equality through policies that are gender neutral, that provide leave to care for sick family members, and that cover same-sex couples, adoption, surrogacy, or foster care.

In addition to signaling a company’s values, rethinking a paid family leave policy can be critical to ensuring that those values and the benefits offered to employees are in sync.

IKEA recognized the importance of living its values in the recent expansion of its paid family leave policy to cover its entire US workforce—including those on its store floors. “The starting point for everything we do is our values and our vision, to create a better everyday life for many people—which includes our coworkers,” said Nabeela Ixtabalan, IKEA’s US head of human resources. “Plus, we believe in taking time off. We’re in the business of home, and we encourage people to take time at home.” This type of consistency reinforces a company’s values and avoids the disengagement that can arise when those values are not in line with employees’ experience of the company.

**Improved Engagement, Morale, and Productivity**

The companies we studied emphasized that providing paid family leave translates into better employee engagement, morale, and productivity. Similarly, in EY’s 2016 study of more than 1,500 employers, more than 80% of those that offered paid family leave reported a positive impact on employee morale, and more than 70% reported an increase in employee productivity.5

Paid family leave provides support to individuals during challenging times in their lives. Bringing a new child home or dealing with an ill child or family member can be among life’s most stressful experiences. Recognizing this, many of the HR leaders we spoke with emphasized that their business case is built on the belief that when employees are able to take off the time that they need, they are better employees when they return to work.
than they would be had they taken no leave or taken a shorter, unpaid leave.

These policies can improve morale and engagement even among those not using the program. “We believe that demonstrating care and concern for your employees, even if it only impacts a specific group, shows the entire organization that you care about them,” said Nichole Upshaw, executive director of human resources at RaceTrac Petroleum, a convenience-store chain in the Southeast. “Knowing that the company cares helps people bring their full selves to work and increases their feelings of loyalty and overall well-being.”

Leaders at Hilton echo this view. In September 2015, the company rolled out a paid parental leave policy for all employees (both hourly and salaried), a benefit offered in addition to other employee investments such as ten-day scheduling in advance, GED support, and a new adoption assistance program ($10,000 per adoption, with no limit on the number of adoptions).6 When asked why they had enhanced the benefits package, these leaders emphasized that Hilton is a business of people serving people, and employees at their hotels are the frontline of that business, so offering benefits that are relevant to them and which help to keep them engaged is a real business imperative. Moreover, they underscored that providing best-in-class benefits is an important component of aligning with the company’s mission of being the most hospitable company in the world. (See the sidebar “Hilton: Setting a New Standard for the Hospitality Industry.”)

Enhanced Brand Equity
Improving paid family leave tends to draw meaningful attention externally. The day after IKEA enhanced its policy, it saw coverage in such media outlets as the Wall Street Journal, Fortune, Forbes, and the Washington Post, among many others. Other companies, including Hilton, likewise received significant media attention, coverage that continued well after the initial announcement. Notably, both Hilton and IKEA announced something that was new for their industries, suggesting that there is a halo effect for those that take an early position on this issue or design their policies in an innovative way.

HILTON
Setting a New Standard for the Hospitality Industry

When Hilton implemented its paid parental leave policy, it knew it would be market-leading. “When we reviewed our benefits, we saw that we were on par from a competitive standpoint,” reported Laura Fuentes, senior vice president, talent and rewards, at Hilton. (Hilton at the time provided partially paid maternity leave for some employees.) “However, from a value proposition standpoint, we knew we could do more than just the industry standard. Yes, we knew this policy change would put us ahead of the market, but that’s exactly where we wanted to be.”

In September 2015, Hilton announced that it would provide all new parents—including fathers and adoptive parents—with two weeks of fully paid parental leave and an additional eight weeks to new birth mothers. This benefit is available to everyone—from the CEO to the line cook to the concierge. The company’s rationale for covering its entire workforce was simple. “At Hilton, our team members are at the heart of our success,” Fuentes continued. “It matters that we listen to their feedback and support them any way we can, because that’s how we live our purpose and values. We believe policies like these will help our business thrive because we are investing in those who make our business successful.”

While the company sees competitive advantages to providing paid parental leave, it is supportive of companies that make similar moves. “We’d welcome others meeting us where we are,” said Fuentes. “And we’re glad that we can show them what’s possible in a business like ours.”
While media attention is not an end in itself—and attracting it was not the reason why any of the companies we studied had changed its policy on paid family leave—positive press can bolster a company’s brand. Johnson & Johnson, for example, saw more traffic to its website on the day that it announced its paid parental leave policy than on any other day that year.

The Tradeoff Between Costs and Benefits

In EY’s 2016 study, companies without a paid family leave policy cited cost as their principal concern in adopting one. So what do companies that have implemented such policies say? First, while recognizing that the benefits are often difficult to measure, they report that the rewards outweigh the costs, particularly compared with those of other benefits they could provide. Second, they have been able to manage the costs of their programs through thoughtful design.

Measuring the Payoff. Given the difficulty of estimating the benefits of a paid family leave policy, few of the companies we studied relied on a pure economic calculation when making their decision. That said, empirical evidence does suggest that among companies that have implemented such policies, paid family leave has generally helped or had no effect on their bottom line. In EY’s study, for example, 92% of companies with a paid family leave policy reported that it had a positive effect or no effect on profitability.

The companies we studied consistently reinforced the message that paid family leave offers a healthy return. “Our benefits package is intended to be extensive. We want people at Facebook to not only feel supported, but also to have the tools and resources to do some of the best work of their lives, and our benefits reflect that,” said Tudor Havriluc, an HR leader at the company. “You also have to consider paid parental leave’s impact on employee engagement and on your brand, and especially on those you’re looking to hire. To us, family leave makes good sense and is the right thing to do. By giving people four months of paid parental leave and six weeks of paid family leave, we’re indicating to them that we recognize how important family is for both men and women.”

The retention benefits of paid family leave can offset its costs. Those costs vary widely by industry, but a 2012 review found that replacing an employee typically costs around 21% of his or her salary. In addition, retention of female employees supports their advancement into senior positions, which, in turn, helps diversify a company’s leadership team—an outcome increasingly associated with better company performance.

Indeed, the clothing company Patagonia has found that its family-friendly policies, including paid family leave, pay for themselves. It has also seen firsthand how such programs promote pay parity and equal gender representation on the company’s leadership teams. (See the sidebar “Patagonia: The Long-Term View on Family-Friendly Programs.”)

Companies reinforced the message that paid family leave offers a healthy return.

Managing Costs. One of the main costs of a paid family leave policy is the temporary labor needed to replace workers on leave. But many companies find they are able to cover the work of absent employees with existing staff, minimizing the program’s labor costs. For example, in a survey of employers in California—where many employees are covered by state policy—more than 95% reported that they most commonly shift the work of exempt employees on leave (those not entitled to overtime pay) to other employees. And 63% reported that this is the approach they use most frequently for nonexempt workers as well. Further research has also shown that the vast majority of workers whose colleagues take leave feel no resentment toward them and experience either a positive or no effect from a colleague’s absence. Not every employee’s work can be covered by existing staff, and some businesses will need to take on temporary labor, which comes at a
cost. This is where policy design comes in—a second way for companies to manage the costs of a family leave program.

Many of the company HR leaders we spoke with—and particularly those outside of the technology, professional services, and financial services industries—stressed that they focused on a few key requirements, such as covering their entire workforce or making the policy available to all types of families, including adoptive parents and same-sex couples. They then adjusted the number of weeks, the level of wage replacement, or the flexibility of the policy to fit their business context as well as their workforce needs.

Notes

5. EY, Paid Family and Medical Leave Survey, 2016 (unpublished). Note that the vast majority (97% and 93%) reported a positive or no effect on morale and productivity, respectively, suggesting that very few companies experienced any negative effect.
6. Like the policies of many other companies, Hilton’s excludes bargaining (union) workers.

PATAGONIA
The Long-Term View on Family-Friendly Programs

Patagonia has long been known for its extensive family benefits package. The company provides 16 weeks of paid leave for birth mothers and 12 weeks for other new parents, as well as for employees caring for an ill family member and employees with an illness of their own. It has run an onsite childcare center for more than 30 years, with teachers who visit employees’ homes before their children enroll. It also allows employees who travel on business to bring a child with them and reimburses the travel costs for his or her nanny, and it has made it easier for women to breastfeed after they come back to work.

Having run some of these programs for more than a decade, Patagonia can show that they work. The company retains 100% of the female employees who go on leave after the birth of a child. “We’ve found that women actually want to come back to work after their leaves, and that’s in part because they don’t have to sacrifice parenting to do it,” said Dean Carter, Patagonia’s vice president for human resources and shared services. As a result, the company believes that the programs pay for themselves.

“Parents who use our onsite childcare center have 25% lower turnover than those who don’t,” Carter continued. “When you consider replacement costs ranging from 35% to 125% [of an employee’s] annual salary, those savings add up quickly.”

In addition, a recent analysis showed that male and female employees at Patagonia enjoy pay parity at all levels of the organization—from entry-level to executive positions. And there are equal numbers of men and women at all management levels, including on the board of directors. “While we can’t pin these outcomes to one program,” Carter reported, “Patagonia is a perfect case study for what happens when women don’t feel like they have to leave the workforce. You do get pay and opportunity parity.”
Deciding to offer paid family leave is only the first step. The company then has to design the program, ensure a successful implementation, and track outcomes such as usage rates, costs, and benefits. Our research suggests that there are five main imperatives in designing a paid family leave policy:

• Make sure the policy reflects the company’s values.

• Remember that the amount of leave is not the only value driver.

• Set an example at the top that encourages employees to take the leave available to them.

• Develop support systems for those on leave and for those covering for them.

• Identify a small number of metrics to measure success.

Reflecting Company Values
The design of a paid family leave program—especially its inclusiveness—says a lot about what a company stands for. Overall, policies are becoming more inclusive, albeit in different ways. (See the sidebar “Expanding the Reach of Paid Family Leave.”) There are three questions to answer regarding inclusiveness:

• How will a parental leave policy distinguish—if at all—among parents? Increasingly, companies are offering equal amounts of paid leave to parents of all types. This means covering both male and female parents, same-sex as well as heterosexual couples, and parents who bring a child into their family through birth, adoption, foster care, or surrogacy. (Of course, disability insurance ensures that birth mothers often end up with a longer total period of paid leave.) For Johnson & Johnson, the desire to have a gender-neutral policy was a significant motivator in revising the company’s family leave program.

• Which categories of employees will be covered? A growing number of companies are broadening the types of employees that they cover, such as part-time as well as hourly employees. Union Square Hospitality Group, for example, recently announced that it would provide paid leave to its entire workforce—including servers in the company’s restaurants—one of the first restaurant groups to do so publicly.

• Which caregiving needs will be covered? While many companies are still offering only parental leave, some—including Discovery Communications—have expanded coverage to include paid leave.
Companies across industries are designing policies intended to make paid family leave more inclusive. Efforts to increase inclusivity take many forms: covering all workers uniformly, offering paid leave in an industry that has rarely seen such coverage, or designing a gender-neutral plan.

**Union Square Hospitality Group**
Union Square Hospitality Group, which in 2015 eliminated tipping in its restaurants, has applied its penchant for ignoring conventional wisdom to its benefits program. “We hire true professionals who desire a career in the hospitality industry,” said Erin Moran, the company’s chief culture officer. “Part of that is creating a career ladder and offering benefits that meet your personal needs as they evolve.”

In 2015, Union Square piloted paid parental leave in the corporate office, with the ultimate goal of extending the benefit to all hourly workers. The challenge was to design a program that helped employees without compromising the business. More than 80% out of roughly 1,800 employees work in the company’s restaurants as hourly workers; an absence almost always means bringing in another employee to cover the shift.

Only 5% of workers in the accommodation and food services sector have access to employer-sponsored paid family leave, so there was little precedent to follow. Ultimately, the company settled on four weeks of fully paid leave, with an additional four weeks paid at 60%. “We really wanted to get all of our employees to eight weeks of leave, regardless of whether they were hourly or salaried workers,” Moran said. “To do that we sacrificed some pay for the second half of the leave.” To blunt the impact on costs, the company also eliminated some paid-time-off policies that weren’t being used. “By streamlining our policies,” Moran reported, “we created room for expanding our paid parental leave policy for all workers.”

**Johnson & Johnson**
The Johnson & Johnson credo emphasizes commitment to employees. When Lisa Blair Davis took on her new role as vice president of global benefits, she saw an opportunity to enhance the family leave policy to meet the needs of the modern family. At the time, new mothers were entitled to disability leave, and all new parents had one week of paid leave and a year of unpaid leave. But one thing that jumped out at her was the lack of support for new fathers. “Women were taking the unpaid leave and returning to work,” said Davis. “But men were taking very little leave around the birth of a child.”

To understand why, Davis and her team dug into the research, especially studies from the Boston College Center for Work and Family showing that, while many men want to play a more active role in the home, they struggle to do so, in part because they don’t take as much leave as women around the time of a child’s birth—a crucial time for establishing caretaking norms. The center also found that men are far more likely to take leave if it is paid. “In working through this research, we knew that we didn’t want a primary/secondary-caregiver policy,” Davis recalled. “We wanted one policy that acknowledged that both parents should have the chance to be active in the early part of a child’s life.”

In 2015, Johnson & Johnson rolled out a new policy giving all parents, regardless of gender, eight weeks of paid leave. Birth mothers have an additional six to eight weeks of disability leave, depending on how the baby was delivered. The policy also allows employees to take leave in half-day increments throughout the first year of a child’s life. “We tried to create a policy in which every family can design their leave in the way that is right for them, regardless of their family situation, gender, or how they bring a child into the home,” Davis said.
to care for an ill family member. There are two advantages to this type of policy. It meets the need of increasing numbers of employees to care for aging parents. And it ensures that all employees have access to paid family leave benefits, not just those who are planning to have children.

Weeks Off: Not the Only Value Driver
While there is incomplete data and a lack of consensus on the “right” duration of paid family leave, the International Labor Organization recommends at least 14 weeks of maternity leave and at least some paternity leave. Today, most companies that have a policy offer less than 14 weeks of maternity leave (and even less for adoption or secondary-caregiver leave). However, the more than 60 companies we reviewed that have changed their policies in the last two years are on average offering more. (See Exhibit 5.)

That said, duration is only one source of value. A policy that gives employees flexibility in when they take their leave, for example, may be of greater value than a longer but more rigid policy. Flexibility may mean allowing employees to take nonconsecutive weeks off, or providing either full pay for a certain number of weeks or half-pay for a period twice as long. Flexibility may be particularly important for employees who need to care for a family member with a chronic illness that requires intermittent care.

Setting an Example at the Top
Even the best-designed policy will not have an impact if employees don’t feel comfortable taking advantage of it. This may be a particular risk for paternity and caregiver leave, which are less likely than maternity leave to be widely accepted in the workplace.

Strong signals—especially from the top—can make a difference. Our research shows that one of the most powerful ways to establish norms is to have those in leadership positions model the desired behaviors themselves. This means ensuring that senior leaders take leave when they need it. Companies should also broadcast their commitment to those who go

<table>
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<tr>
<th>WHAT THE EXPERTS SAY</th>
<th>Birth mother leave</th>
<th>Secondary-caregiver/paternity leave</th>
<th>Adoption leave</th>
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<td>BCG database of companies</td>
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<td>Society for Human Resource Management</td>
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<td>~6 weeks</td>
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Note: The “recent movers” database comprises 68 companies; the full database comprises 266 companies.

*Often includes disability as well as parental leave at companies that offer both.
on leave by referring to it, as appropriate, in staff meetings, sharing the experiences of employees on leave, or regularly informing employees about the number of people taking leave. These seemingly small actions create a sense of normalcy about paid family leave and remind employees that they will be supported if they take advantage of the policy.

Support Systems
Though most companies are well equipped to handle employee absences, they can be disruptive—both for those going on leave and for those covering for them—if not handled appropriately.

It’s essential to ensure that employees are not penalized for taking leave.

There are several ways to address these challenges. A number of companies emphasize the importance of creating smooth off and on ramps for workers about to take leave or returning to work. At Geben Communication, a small public-relations firm in Ohio, employees can work at home, in the office, or anyplace they choose during their first two weeks back on the job. In other companies, off- and on-ramping may consist of informal discussions between employee and manager to prioritize and delegate work. In still other companies, work-life coaches help not only with off- and on-ramping and managing leave but also with establishing a manageable work-life balance for employees when they return.

It’s essential to closely examine advancement and promotion metrics to ensure that employees are not penalized for taking leave and are able to do well once they return. Organizations in which compensation is based on billable hours, for example, may want to consider reducing billing targets around the time of a leave, on the assumption that the employee will not be working at full capacity immediately before and after taking time off.

Companies should also consider how to support managers and those covering for employees on leave to ensure that they have a positive experience with the policy as well. Support systems can include a checklist outlining what managers need to do when an employee goes on leave or regular communications between HR and the covering employees to make sure they’re comfortable with any increased workload. One organization put together a paid family leave “playbook” for managers that provided guidance on determining the best way to cover for workers on leave and best practices for transitioning work between employees.

Metrics to Measure Success
Numerous metrics related to paid family leave can be collected, but we recommend a short list that can be used to quickly assess a program:

- **Usage Statistics.** In order to manage costs—and better tailor a program to specific business needs—companies should track who is taking paid time off and for how long, as well as temporary labor replacement costs. This type of data can also help determine the types of leave that are most in demand and how the company’s benefit policies are actually being applied.

- **Benefits.** Measures of a policy’s benefits could include retention rates for employees who have taken leave or, to gauge the policy’s impact on attracting talent, the number or type of job applicants. Routine employee surveys can capture trends in engagement and morale.

- **Employee Perceptions.** To better understand potential barriers to leave taking, companies can integrate questions specific to paid family leave into midyear or end-of-year employee surveys.

**Paid** family leave can be a powerful differentiator, an important signal of a company’s values and aspirations, and a meaningful contributor to morale, productivity, and profitability. Our research shows that the benefits
of paid family leave are starting to be recognized by a broad set of companies and organizations. Employers such as IKEA, Hilton, RaceTrac, the Department of Defense, and others have determined that offering paid family leave is the right thing to do for their organizations as well as for their workers.

This is not to say that every company will decide that proactively offering paid family leave is right for its business. But for organizations that do choose to provide paid family leave, it goes without saying that they will be supporting employees during some of the most critical—and often difficult—moments in their lives. Equally important, our research shows that they stand to gain significant benefits from making paid family leave available to their workforce. They will likely see employees who are more willing to remain with the company, reducing turnover costs and potentially increasing the diversity of leadership teams. They may be able to attract more talented workers. And they may also find that a more generous paid family leave policy helps translate the organization’s values into action, enhancing internal engagement and the company’s brand.
The Boston Consulting Group has published reports on related subjects that may be of interest to senior executives. Examples include those listed here.

**Bringing Swiss Women Back to Work by Shaking Up the Part-Time Model**  
A report by The Boston Consulting Group  
July 2016

**Changing the German Economy by Moving More Women into Management**  
A report by The Boston Consulting Group  
March 2016

**Bridging the Entrepreneurship Gender Gap: The Power of Networks**  
A Focus by The Boston Consulting Group  
October 2014
Note to the Reader

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