

Mandatory Paid Sick Leave – Another Ailment for the Small Business Climate

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Background

Proposals in the state legislature would mandate that every employer provide a minimum amount of paid sick leave for each employee. There is no exemption for small businesses. House Bill 2777 and Senate Bill 6592 implement policy instructing all businesses to give full-time workers paid sick leave—depending on the amount of time the employee worked over a six month period. The bills are identical and would mandate that:

- An employee shall be granted at least 40 hours of paid sick leave for each 6 months of full-time work;
- An employee is entitled to take paid sick leave only after completing the first 6 months of consecutive employment;
- Part-time employees will receive paid sick leave in proportion to the hours they have worked.

In Washington, according to the Employment Security Department's *2004 Employee Benefits Survey*, 46% of all firms already offer paid sick leave. Nationally, no state requires paid sick leave as a matter of law.

Currently at Issue

Proponents of mandatory paid sick leave say that it is needed for workers to supplement income for days lost at work in order to care for themselves or their children, to avoid contaminating their workspace, and for a host of other personal reasons.

Employers cite several reasons why they do not always offer paid sick leave. Many jobs are retail or jobs where an employee's absence is covered by a fellow co-worker. Some jobs are dependent on a system of gratuity; therefore, paying an employee to stay at home would be a massive blow to the business's bottom line.

In the modern economy, many companies have adopted flexible new ways of handling employee absences. Businesses now combine an employee's sick time with paid vacation time and label it "Paid Time Off," or PTO. The PTO system allows the employee to decide when, and under what circumstances, paid leave should be used. The 2004 Employee Benefits Survey from the Employment Security Department (ESD) makes no mention of whether firms that offer PTO are included in the 46% of firms that offer paid sick leave.

Effect on Small Businesses

A breakdown of the numbers by the Employment Security Department shows small businesses would be disproportionately impacted by a mandatory paid sick leave policy.

As the following chart shows, every business category is affected, but employers with fewer than 100 employees would get hit the hardest:

Percentage of Washington Businesses Affected by Paid Sick Leave Mandate	
All firms	54%
Employees = 100+	22%
50-99	35%
25-49	45%
10-24	51%
2-9	58%

This legislation means almost half of all businesses with fewer than 100 employees will be forced to change their employee benefit system—even more so for employers with fewer than 50 employees.

Of equal importance is that the Employment Security Department's numbers do not breakdown how many days of paid sick leave are currently offered per firm. All small businesses offering less than ten days of paid sick leave would be affected; therefore, the actual percentage of businesses impacted by the new mandate would be much higher.

According to the same agency (ESD), 73% of all firms offer paid vacations to their employees. It is important to note, though, that these numbers do not breakdown the difference of PTO and paid sick leave. Therefore, many employees who have PTO will not show as having the paid sick-leave benefit, even though they already have this benefit.

There is no accurate way to gauge the productivity that would be lost due to a new mandatory benefit imposed upon employers. According to some surveys, employees often use sick pay in proportion to how much leave is available (e.g. if an employee has 12 days sick time they will use approximately 7 days per year; and an employee with 5 sick days will use approximately 3.5 days).

Thousands of firms already provide paid sick leave, but not necessarily ten days per year. So there is no way to tell how many companies will be required to increase the number of paid sick days they provide for employees. This could lead to other employee benefits, such as paid vacation, health insurance, or even salary being reduced.

According to a recent study by the U.S. Small Business Administration, employees of small businesses have, by-and-large, access to fewer benefits than do the employees of large businesses. The smallest firms are often forced to make substantially higher contributions per participant for benefits than the largest firms. Smaller businesses, therefore, face a larger cost in implementing any new mandated benefit, than their larger competitors.

Conclusion

Blanket regulations that apply one rule to every business are detrimental to the economy as a whole. Most businesses have some sort of paid sick leave or PTO policy, but businesses should not have a single, one-size-fits-all rule levied against them.

There is no scientific merit to requiring ten sick days per year. Many companies already give their employees three, five or seven days per year. Arbitrarily increasing the number of paid sick days per year from seven to ten may help some employees infrequently, but could also lead to higher instances of employee abuse. Small firms already providing paid sick leave would be punished if they provided fewer than ten days of it. Smaller businesses may respond to these types of proposals by shortening paid vacation benefits offered to employees or other traditional non-cash benefits. In this case, government intervention will probably end up hurting the situation, not helping.

The cumulative effect of regulations such as numerous health insurance mandates and the automatically increasing minimum wage has further negative ramifications for our business climate. These regulations, and the proposed mandatory sick leave legislation, will increase expenses for small businesses and make our business climate even less attractive to local and out-of-state business ventures.

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