

Michael Saltsman Employment Policies Institute

February 2013

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PAID SICK LEAVE IN CONNECTICUT

A Pilot Study of Businesses' Responses to the Law he Employment Policies Institute (EPI) is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research that is conducted by independent economists at major universities around the country.

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PAID SICK LEAVE IN CONNECTICUT

A Pilot Study of Businesses' Responses to the Law

Executive Summary

"Everybody benefits." That's what proponents of Connecticut's first-in-the-nation state paid sick leave law told legislators and the public during the debate that preceded the law's passage. Business owners weren't so sure—public hearings on the legislation contained testimony from a number of businesses concerned about the effects of the law on their operations.

The state's sick leave law took effect at the beginning of 2012, and the point of this study is to capture businesses' early experiences with and reactions to the law. Were the concerns expressed early on during the legislative debate worth considering, or was it just business owners "crying wolf"?

Between April and October of 2012, we surveyed a broad list of business owners provided to us by the Connecticut Business and Industry Association and Connecticut Restaurant Association, and conducted in-depth follow-up interviews with four of the responding businesses. The results should not be interpreted as being representative of the experience of all businesses in the state, but indicative of some of the challenges that businesses in a wide range of industries have faced while implementing the law.

Of the 156 businesses that responded to the survey, 86—or 55 percent—had started providing sick leave to comply with the new law. Prior to the law taking effect in January 2012, 31 of the businesses surveyed had scaled backed on employee benefits or reduced paid leave (or both) to account for the cost of the new law. Twelve had cut back employee hours, and another six reduced employee wages. Nineteen businesses raised consumer prices, six laid off employees, and three converted part-time positions to full-time positions. Sixteen businesses indicated they had decided to limit or restrict their expansion within the state.

Perhaps more concerning were the future actions that state businesses were likely or highly likely to take in response to the law: Thirty-eight businesses said they would hire fewer people as a consequence. Other actions included offering fewer raises, scaling back on overtime, raising prices, and increasing the cost of other benefits like health insurance.

Also surprising was the perception of the public health problem the law was intended to solve. Contrary to rhetoric used during the campaign, nearly 90 percent of all responding businesses indicated that sickness in the workplace was not a serious problem prior to the law taking effect; just 3 businesses described it as a serious problem.

Employers were also skeptical of the projected savings from the law. Of the employers in Connecticut that started providing sick leave, only two responded that it would reduce employee turnover, and another two anticipated that it would increase employee productivity. Forty-six businesses worried that the law would increase unscheduled absences in their workplace. One of the companies surveyed already had experience with this phenomenon, where employees call out sick on Monday and make a "miraculous recovery" the following day.

Perhaps most telling was that, of the 83 employers who responded to the question of whether the law was good for their business, 57 of them—or 69 percent—said it was not. Even for businesses not affected by the law economically—like the utility company that participated in the follow-up survey—the law created a new liability, or "another thing employees can sue us over."

During the follow-up interviews, business owners expressed frustration with the "employers vs. employees"

narrative that was put forth during the debate. One restaurateur said his business "always took care of its people," and that the lack of a paid policy was never an issue until labor unions decided to make it one. The owner of a daycare center was upset at the notion that he forced employees to choose between their jobs and their health: "Everybody's happy—some of my employees have been here 20, 25 years. If things were so terrible, I wouldn't have that kind of longevity."

A full accounting of the law's impact will take additional time, and this study makes no claim of being representative of the broader Connecticut business population. But it does suggest that the law has not been a cost-free endeavor, and that there have been consequences for both employers and employees as a result. Other cities and states considering similar laws should take these consequences under consideration.

Introduction

About the Law

Beginning in January of 2012, Connecticut became the first state in the country to require employers to provide paid sick days. Prior to Connecticut, two cities (San Francisco, CA, and Washington, DC) had similar laws on the books; since the passage of the Connecticut law, Seattle's City Council approved a similar law.

Public Act 11-52 requires certain Connecticut businesses to provide employees with one hour of paid time off for health-related issues for every 40 hours worked. The law applies to a specific list of service occupations and exempted manufacturers and 501 (c) 3 non-profit organizations. It covers employees at businesses with 50 or more employees in any one quarter of the previous year.¹ The leave begins accruing as of January 1st or on the first day of hire, although employees must work 680 hours before using the leave. Up to 40 hours can be carried over from one year to the next.

The campaign to pass the first-in-the-nation law centered on public health. Proponents argued that no one should have to choose between their job and their health (or the health of a family member), and that "everybody benefits" from employees having paid days off to recover from an illness.

Employers, on the other hand, worried about human resource difficulties from tracking accrued sick leave, the potential for employee absenteeism, and new costs in an uncertain economic environment.

About the Study

During the debate over the sick leave law, advocates

argued that the policy would be good for business, citing the experience of individual business owners in the state that already adopted paid sick leave. However, early news reports following the law's passage found that some businesses were taking steps to minimize the law's cost; for instance, one business laid off some of their part-time employees and converted the rest in to full-time employees, to remain under the law's 50-employee threshold.2 Additionally, strategy documents from subsequent sick leave campaigns suggest that business owners rallying in favor of sick day campaigns were not representative of the broader business community.3

While it's too early to fully understand the law's impact, businesses in Connecticut now have experience adapting to the law and planning for the future. The point of this pilot study is to understand how members of the state's business community responded to this first-in-the-nation state sick leave law.

The Connecticut Business and Industry Association (CBIA) worked with the Employment Policies Institute (EPI) to survey 727 members most likely to be impacted law. (The state restaurant association also sent the survey to its 75 members most likely to be impacted by the law.) This group of roughly 800 businesses was sent a survey via email in April 2012 asking about their experience with the state's paid sick leave law. (A list of the questions is available in the Appendix.) An introductory note describing the project and a link to the survey were emailed to each business. (Three follow-ups to the initial survey link were also sent over the following months.)4

The CBIA also emailed respondents to the initial survey regarding an in-depth follow-up interview, to provide addi-

¹Employee thresholds of this sort have been described as a "hiring notch," which give marginal employers an incentive to consolidate below the threshold. See Yelowitz (2006).

²http://www.ctpost.com/news/article/Paid-sick-leave-drives-hiring-concern-2346890.php#ixzz1flDpn3Bv. Last accessed 8/21/2012.

³Seattle Coalition for a Healthy Workforce (2012).

⁴The survey was conducted using Qualtrics software, which prohibits any one business from taking the survey more than once.

tional detail on the law's impact. The follow-up interviews were conducted via telephone by EPI.

One weakness of the report is that response rates for the survey were low—roughly 20 percent. The survey's results shouldn't be viewed as representative of the experience of all Connecticut businesses. In particular, businesses most likely to respond may have been those most likely to hold strong feelings about law.

Holding these concerns in mind, the research still provides an early glimpse of the actual experiences of the state's business community with this sick leave law. The responses come from across industries. Additionally, since the "pro-business" case in support of the law during the sick leave debate was largely anecdotal, this study's results and observations should also merit careful consideration by the state's policymakers.

Survey Results

Among those responding to the survey, recognition of the law was high-149 of those 156 responding had heard of the law. Among those who had heard of the law, 86—or 55 percent—had started providing sick leave to comply with the law.5 The distribution of industries represented among respondents who had to comply is provided at left.⁶

Illness in the Workplace

Among all respondents surveyed, one noteworthy result is how few reported a serious problem with flu and illness in the workplace prior the law's passage. Out of 152 who

responded to the question, nearly 90 percent indicated that sickness in the workplace was not a serious problem prior to the law's passage. Just three respondents indicated that it was a serious issue.

Finance/Insurance	8%
Food/Beverage	23%
Healthcare	13%
Hospitality (Hotel/Meeting)	1%
Professional Services	10%
Retail	18%
Wholesale	4%
Energy/Utility	2%
Childcare/Social Services	5%
Transportation	2%
Construction	2%
Other	12%

Businesses were also asked for a rough estimate of how many of their employees showed any cold or flu symptoms in the workplace in a typical workweek. The mean response was 2.2 percent and the median response was 1 percent. 7

How Serious a Problem was Sick Employees in the Workplace?		
Not at all Serious	135	
Somewhat Serious	14	
Serious	3	

While not representative of the state as a whole, these responses suggest that reports of widespread workplace illness during the campaign for a sick leave law may have been exaggerated.8

⁴The survey was conducted using Qualtrics software, which prohibits any one business from taking the survey more than once.

⁵Not providing sick leave does not necessarily mean that the business was not in compliance with the law. The law applies to a very specific set of occupations, so not all businesses that received the survey were covered by its provisions. Other businesses already provided the benefit to their employees.

⁶*n*=84. Two respondents didn't provide an industry.

One plausible policy motivation for a sick leave mandate is negative externalities, the idea that neither an employer nor employee bears? the full cost of infecting others with an illness. However, at least for this sample, this seems to be more of a theoretical concern than an actual one.

http://www.westhartfordnews.com/articles/2011/05/12/news/doc4dcc44f0a354d323370361.txt. Last accessed 8/21/2012.

Actions Taken In Anticipation of the Sick Leave Law

Early news reports suggested that some Connecticut businesses were adapting to the new law prior to its implementation.9 Surveyed businesses were provided with a range of potential actions to determine how (if at all) they've adapted to prepare for the new law. (Businesses were allowed to select more than one option.)

Forty-six of the responding businesses took none of the actions listed. The remaining businesses—about 47 percent--took one or more of the actions listed. (A full list is available below.)

Actions Taken in Anticipation of Sick Leave Law		
	# of Companies	
Raised Consumer Prices	19	
Scaled Back on Other Benefits	17	
Restricted Expansion within Connecticut	16	
Scaled Back on Vacation Leave	14	
Reduced Current Employee Hours	12	
Required Employees to Pay More for HI	7	
Fired or Laid Off Employees	6	
Reduced Wages	6	
Expanded Elsewhere Instead of CT	5	
Converted Part-Time to Full Time Positions	3	
Replaced Employees with Temps	2	
Scaled Back on Hours of Operation	1	

Seventeen of the businesses surveyed had scaled backed on employee benefits to account for the cost of the new law, and fourteen scaled back on vacation leave. Another six reduced employee wages, and twelve reduced employee hours. Nineteen businesses raised consumer prices, and six fired or otherwise laid-off employees. Sixteen indicated they had decided to limit or restrict their expansion within the state.

While these actions aren't representative of all employers in the state, they do suggest that some employers viewed the potential costs of the new sick leave policy as more than incidental.

Future Plans and Effect on the Cost of Business

Among those businesses that started providing sick leave to comply with the new law, 43 said it would have a large effect on their cost of business, 30 said it would have a small effect, and 12 said it would have no effect. (One business opted to not respond to the question.)

To gauge businesses' future responses to the law, we provided a range of options that could be marked highly likely, likely, unlikely, or highly unlikely. Notably, just six of the responding businesses indicated that they were "highly unlikely" to take any of the listed actions.

Future Plans in Response to Law, Likely or Highly Likely			
	# of		
	Companies		
Reduce Profits	42		
Scale Back Overtime	40		
Pay More for HI	38		
Hire Less	38		
Raise Prices	32		
Fewer Raises	35		
Expand Outside CT	26		
Scale Back Vacation Leave	29		
Reduce Employee Hours	26		
Restrict Expansion w/in CT	27		
Replace Employees with Temps	18		
Fire/Lay Off Employees	16		
No Health Insurance	12		
Reduced Wages	9		
Scale Back Hours	8		
Reduce Quality/Quantity 2			

http://www.ctpost.com/news/article/Paid-sick-leave-drives-hiring-concern-2346890.php#ixzz1flDpn3Bv. Last accessed 8/21/2012.

The chart on the previous page provides the number of respondents who indicated they were highly likely or **likely** to take the listed actions. Forty-two indicated that the law would reduce their profits, and thirty-eight said they would hire fewer people as a consequence. Other actions included offering fewer raises, raising prices, and increasing the cost of other benefits like health insurance.

While these actions aren't representative of all employers in Connecticut, they again suggest that the law is not a cost-free proposal for employers. Of the 83 employers who responded to the question of whether the law was good for their business, 57 of them—or 69 percent—said it was not. (Nineteen employers said it was good for their business, and seven didn't know.)

Effect on Employees

It's also possible that the law will have an effect on employees' behavior. For instance, pro-sick leave research groups like the Institute for Women's Policy Research (IWPR) claimed that Connecticut employers would save \$73 million annually, due mostly to cost savings from reduced employee turnover.¹⁰ However, a survey of employers in San Francisco following passage of that city's sick leave law found that very few identified reduced turnover as a benefit of the law.¹¹ As one employer pointed out, requiring all employers to provide a specific benefit reduces the incentive of an employee to stay with one employer over another.

Of the employers in Connecticut that started providing sick leave, just two responded that it would reduce employee turnover; similarly, only two anticipated that it would increase employee productivity. Nineteen employers felt that the law would reduce the number of employees who come to work sick. However, 46 of the

Anticipated Effect on Employees			
	Number of Companies		
Reduce Employee Turnover	2		
Reduce # Who Come to Work Sick	19		
Reduce Spread of Flu	16		
Improve Productivity	2		
Increase Unscheduled Absences	46		
Improve Morale	9		

employers felt that the law would increase unscheduled absences in their workplace.

While it will take time to determine the true effect on employees, these preliminary results suggest that the monetary benefits of sick days were overstated in Connecticut—much as they were in San Francisco.¹²

Narrative Case Studies

To provide additional context for the survey results, EPI conducted four 30-minute phone interviews with businesses impacted in some way by the Connecticut sick leave law: a utility company, a day care center, a private transportation company, and a casual-dining restaurant. In all cases, we spoke with a person directly responsible for implementing the sick leave law in the workplace.

None of the companies interviewed indicated that presenteeism—the presence of sick employees in the workplace—was a problem for them prior to the law's passage. Either the employer already provided some sort of paid leave, or the employees were offered schedule flexibility to get have their shift covered and make it up later.

¹⁰Miller and Williams (2010)

¹¹Boots et al (2009)

¹²For instance, Drago and Lovell (2011) report that 80 percent of employers in San Francisco reported that "presenteeism" (i.e. coming to work sick) was unchanged following passage of the city's sick leave mandate.

One company was concerned about the legal risks the law created; another called it a book-keeping "nightmare." One company raised prices and planned to reduce employee benefits to offset the law's costs. In all cases—even for companies that were minimally affected economically by the new law—there was some sort of consequence to the state government requiring this new benefit.

• Company #1: Water Utility

Water utilities have historically provided their employees with generous benefits package. The respondent at one Connecticut utility explained that, due to the unique needs of the business, it's a challenge to find utility operators who are licensed. Generous benefit packages are thus critical in attracting and retaining employees—they're an industry standard.

At this 250-person company, that benefit package includes unlimited personal sick days at 100 percent of pay, as well as 10 days of paid sick time for sudden, family-related emergencies. The company also offers anywhere from two to six weeks of paid vacation, depending on the employee's tenure. Employees are also eligible for short-term and longterm flex time arrangements which allow them to tend to personal business without drawing down their paid time off. Finally, employees receive two personal days each year and thirteen paid holidays.

Because the company is a regulated utility, the rates they're granted to charge their customers cover employee salaries and benefits (although those rates don't cover executive compensation.)¹³ The sick leave law, which requires the company to provide fewer days than they currently offer, has no economic effect on the company.

However, the company's human resources officer emphasized that the law has already had a significant effect on their risk management. While the company's original leave policy was more generous than the law required in terms of days provided, there were differences in the reasons that leave could be used by employees. The company was concerned about legal risk—it was, in the words of the human resources executive, "another thing employees can sue us over."

As a result, she and her team devoted considerable effort making sure their leave practices are fully auditable, should an employee decide to accuse the company of having a leave policy that violates the state law. In this regard, the new sick leave law has the potential to come between what was previously a healthy relationship between employer and employee. The company's human resources officer put it this way: "We treat people with respect, and trust people, but we're concerned about the first employee who decides we have not complied with their understanding of the law."

• Company #2: Day Care Center

At a 50-employee day care in a suburb of Hartford, the paid leave package prior to passage of the law was generous, but didn't specifically include paid sick leave. The business owner offered 1 week of paid vacation after 6 months of employment, 2 weeks of paid vacation after one year, and 3 weeks of paid vacation after five years. Employees were also given six paid holidays, a paid day off on their birthday, and one personal day each year. (Employees could earn additional personal days by not taking time off for three months in a row.)

¹³Utilities are allowed to earn a rate of return on infrastructure in the ground, which is where compensation for company executives comes from.

When the law first passed, the owner planned to eliminate a few part-time positions to remain under the 50-employee threshold at which the law applied. However, he subsequently found out that the 50-employee threshold applied to any quarter in the previous year. The company has to staff up on part-time employees in the summer months to allow full-timers to take a vacation. (Mandatory staffing ratios don't allow a child care business like this one to operate short-staffed.)

As a result, the center's employees began accruing sick leave at the beginning of this year. The owner described it as a book-keeping "nightmare." The company's national payroll firm couldn't help track the time, because the law only applies in Connecticut. As a consequence, the owner has been tracking the accrued sick time by hand—a process he described as time-consuming. Next year, the company will provide all employees with five paid sick days up front, to avoid the hassle.

Because the business still has to meet an adult-tochild ratio, the owner said the law is particularly costly for the daycare center, as they have to pay the absent employee and the employee's replacement. As of January 1st, the Center raised prices somewhat to try and offset this cost. (The owner emphasized that prices couldn't be raised too much—their biggest competitor, the YMCA, was exempted from the law.) To accommodate future costs, the company is planning to eliminate paid personal days and the three-week vacation tier.

The owner expressed frustration with the law, and the state's business climate more generally. He said the law won't put him out of business, but that it's "like someone with a hatchet chipping away"—the portion of the law's cost that can't be offset through

higher prices and reduced benefits will come out of his modest profits. He also challenged the notion that employees were being forced to choose between their jobs and their health: "Everybody's happy—some of my employees have been here 20, 25 years. If things were so terrible, I wouldn't have that kind of longevity."

• Company #3: Special Needs Student Transportation At this mid-sized transportation company with 100 employees, paid sick leave wasn't offered to the mostly-hourly staff prior to the new law taking effect. Instead, employees were required to find someone to cover their shift. The nature of the transportation business means that a missing employee can't be overlooked--it's necessary to have someone to operate the school bus.

The human resources manager who spoke with EPI indicated that employees utilized this "shift-swapping" system, which allowed sick employees to stay home and still gave the employer the workplace coverage it needed.

With the new law in place, the company has been forced to hire standby employees to cover shift should a regular employee unexpectedly call out. The respondent indicated that this was a real concern, as employees who were eligible for sick leave had already started using it, with a particular spike in people calling out on Mondays. (One employee had asked if they could forgo the sick days and just get five days of sick pay in a lump-sum check.)

Tracking leave hasn't been as problematic for this company as it was for the day care center, as their particular payroll firm was able to adapt to the new law and track employee accruals. However, the company is planning other adjustments in response to the law's cost. The human resources manager indicated that employee hourly pay would be adjusted downward accordingly, since the cost of the new law is being treated as a component of compensation. That's especially the case because the company suspects that employees are using paid sick leave as paid vacation time—making, as the respondent said, a "miraculous recovery" when they return to the job on Tuesday.

• Company #4: Casual Table-Service Restaurant

During the sick leave debate, restaurants were a poster child for why a sick leave mandate was essential. Advocates for the law created signs that said "No Boogers in my Burger" and "No Coughing in my Coffee," suggesting to the public that restaurant workers were frequently forced to work (and handle food) while ill.

The owner of a 30-year-old Connecticut restaurant challenged that assertion. He said that healthy employees were crucial in the restaurant business, but that a formal paid policy had never been required to keep sick employees out of the workplace. Rather, fellow co-workers would trade shifts to give the employee a chance to make up the missed income.

Once the law took effect, the owner said the biggest challenge was managing employees' perception of the law. There was a concern that employees would perceive the sick days as theirs for the taking, for whatever reason. As the owner put it, he worried that "five days of sick time not used would be viewed as five days lost."

Absenteeism creates major problems for a restaurant, particularly on a busy evening. As a result, the business designed a policy that rewards employees for not using leave. Employees earn five

days of paid time off each year, which can be used for any reason—not just illness. If the employee has time over at the end of the year, they'll be paid for that unused time.

He and his management team looked for opportunities to raise prices to offset the cost, but concluded that with the delicate economy the room for a price hike wasn't there. Instead, the cost of the law will come out of his already-narrow profits (which are off a few percent from previous years.)

The owner expressed frustration in the "antagonistic relationship" the law created between him and his employees. He said the business "always took care of its people," and that the lack of a paid policy was never an issue until labor unions decided to make it one. He said the sick leave law itself wouldn't cause him to close his business, but that it was "one more anti-business piece of regulation" that makes Connecticut less-friendly to job growth.

Conclusion

The Connecticut paid sick leave law has been in effect for only a year at the time of this report's release, and as such it's too early to make a definitive judgment about its impact. Future data from the Census Bureau's Current Population Survey and American Community Survey will help determine in a statistically robust manner whether there are specific benefits or consequences associated with the law.

The purpose of this pilot study is to provide an early glimpse at how the state's employers are reacting to the law. While not representative of all employers in the state, some of those responding indicated that the law's costs have created consequences, including higher prices and a reduction in employee hours and benefits. Addi-

tionally, many employers indicated that the law would cause them to hire fewer people in the future. This evidence suggests that the law in Connecticut needs further study before other cities and states proceed with similar legislative proposals.

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Appendix: Survey Questions

Note: Data from some of the questions has been reserved for a follow-up policy piece and thus was not included in this pilot study.

- 1. Connecticut's Paid Sick Leave law which went into effect January 1, 2012, requires certain companies with 50 or more employees not already offering the equivalent of one hour of paid sick leave for every 40 hours worked to start doing so. The leave can be used for treatment of an illness, preventative care, or service related to "family violence" for the employee, the employee's spouse, and his/her child. Documentation would be required after three or more consecutive days of absence. Have you heard about this law?
- 2. Have you started providing paid sick leave for some of your employees to comply with the new law?
- 3. Would you say this sick leave law will have a big effect on your costs of business, a small effect, or no effect?
- 4. If you've started providing sick leave to comply with the new law, what would you estimate as the annual dollar cost of this policy for your business?
- 5. In the last year, have you done any of the following in anticipation of the new law? (check all that apply)
 - a. Fired or laid off employees
 - b. Replaced employees with temporary or contractual workers
 - c. Reduced wages
 - d. Converted part-time positions into full-time positions
 - e. Scaled back on vacation leave
 - f. Scaled back on other employee benefits
 - Require employees to pay more for their health insurance
 - h. Stopped offering health insurance
 - Raised consumer prices
 - Scaled back hours of operation
 - k. Restricted expansion within Connecticut
 - Expanded elsewhere instead of growing in Connecticut
 - m. Reduced current employee hour
- 6. On a scale of 1 to 4, where 1 means highly unlikely, 2 means unlikely, 3 means likely, and 4 means highly likely, how likely is it that your company will take the following actions in response to the sick leave law in the coming year (mark 5 if you don't know, haven't thought about it, or still need to evaluate):
 - a. Reduce wages
 - b. Offer fewer pay raises in the future

- Scale back vacation leave
- Scale back on overtime hours
- Hire less in the future
- Reduce hours for existing employees
- Fire or lay-off employees
- Not offer health insurance
- Require employees to pay more for their health insurance
- Raise consumer prices
- Reduce quantity or quality of product
- Scale back hours of operations
- m. Reduce profits
- Restrict expansion within Connecticut
- Expand your business outside of Connecticut
- 7. The new law was passed with the intention of reducing the number of sick employees in the workplace. How serious of a problem has this been at your company?
 - a. Serious
 - Somewhat Serious
 - c. Not At All Serious
- 8. Roughly what percentage of your employees show cold- or flu-like symptoms in the workplace in a typical work week?
- 9. Do you anticipate that the new law will have any of the following effects on your employees (check all responses that apply)?
 - a. Reduce employee turnover
 - b. Reduce the number of employees who come to work sick
 - Reduce the spread of flu in the workplace
 - d. Improve employee productivity
 - Increase unscheduled employee absences
 - f. Improve employee morale
- 10. Do you think the new paid sick leave law is good for your business?
 - a. Yes
 - b. No
 - c. Don't Know



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