

Estimates of the Gross Cost of Paid Sick Day Provisions in British Columbia

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The logo for the Centre for FutureWork. It features the words "Centre for" in a smaller, grey, sans-serif font, followed by "FutureWork" in a larger, bold, sans-serif font. "Future" is in orange and "Work" is in grey.

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Introduction and Main Findings

The COVID-19 pandemic has dramatically demonstrated that workers need the financial capacity to stay home from work when they are ill, or potentially exposed to contagious illness. Workplaces were an important source of contagion as the pandemic progressed, even after the implementation of distancing, mask-wearing, and other health protocols. Requiring workers to stay away from work if they had COVID symptoms, or were potentially exposed to COVID, became an important element in Canada's overall public health response. To help achieve this goal, the federal government implemented special income protection benefits during the pandemic to ensure that workers affected were not punished financially for their resulting absences from paid work. About half of Canadian workers had no access to employer-paid sick leave benefits when COVID hit, and statutory requirements for minimum protection in this regard were very weak. In B.C.'s case, there was no requirement at all for employers to provide any paid sick days to their workers prior to the pandemic. So the federal government quickly unrolled a suite of income supports (including the Canada Recovery Sickness Benefit, CSRB) to replace at least some of the income lost by workers due to compliance with these health measures, and reduce the financial pressure on workers to keep working when they should stay at home.¹ The B.C. government also implemented a temporary government-funded measure to cover up to 3 days of absence.

Now, as Canada anticipates the end of the pandemic, governments are considering how to address this glaring gap in our network of basic workplace protections. The CSRB is scheduled to end this month (although the federal government may extend it again). How will workers be protected from the financial effects of illness in the future – and encouraged to stay away from work when health considerations (for themselves, their colleagues, and the community) require?

The federal government has indicated it will introduce new legislation to require employers (both public and private) in federally-regulated industries to provide at least 10 days of paid sick leave to their employees. Provincial governments are considering their own policy responses. The B.C. government has indicated it will implement a permanent paid sick leave plan to replace the current temporary COVID sick pay

¹ The CSRB is capped at a maximum of \$500 per week, and hence does not necessarily replace the full income lost by a worker staying home because of COVID-19 illness or exposure; its qualifying rules and application procedures have also been criticized as too restrictive (see Jones, 2021).

program, and has undertaken a public consultation to consider various options.² Public health experts urge that 10 days of protection is the minimum required to prevent transmission of illnesses (including potential future variants of COVID-19, and/or other highly contagious diseases) in workplaces.³ Certain business groups, however, argue this would be too expensive for employers; some firms could even be bankrupted, it is claimed, by a requirement to provide paid sick days.⁴ They argue if paid sick leave is to be compulsory, then government should cover private employers' costs.⁵

To some observers, requiring employers to cover up to 10 days paid sick leave for all workers sounds like a daunting change in employment practice – akin to having to pay out an extra two weeks' worth of wages or salaries to all workers every year. This level of protection is the norm in other industrial countries, however,⁶ and is already met by many Canadian employers.⁷ And in practice, the final impact of a requirement for 10 days paid sick leave will not have nearly as dramatic an impact on total business operating costs as is implied in these dire business predictions. The ultimate gross impact of this measure on bottom-line business costs will in fact be muted by several intervening factors:

- Not all workers will qualify for the full 10 days paid sick leave entitlement (since the benefit, in most proposals, is phased-in as a worker accumulates tenure in a job).
- Many employers already offer similar benefits, and hence will experience little or no increase in compensation costs.
- On average, not all entitled paid sick days will be claimed by workers.
- Even when workers are absent on paid sick days, not all will be replaced with alternative staff during their absence.
- Labour compensation costs account for a relatively small share of total business expenses, and this further dilutes the final impact on gross expenses.

² See Government of British Columbia (2021).

³ See, for example, Decent Work and Health Network (2020) and Thompson et al. (2021).

⁴ For example, West Shore Chamber of Commerce head Julie Lawlor claimed many businesses would be driven into bankruptcy by the new policy (Moreton, 2021). On the other hand, many other employers have indicated their support for making this a general employment practice (as reported, for example, by Dunne, 2021). See Kline (2021) for more criticism of the policy from a business perspective.

⁵ Among many other problems with this approach, it provides a financial incentive for employers to cancel existing paid sick leave benefits so their cost can be transferred to government.

⁶ Most OECD countries already require paid sick leave of two weeks or more; see OECD (2020), Heymann et al. (2020), Hye et al. (2020), and Raub et al. (2018).

⁷ As discussed below, about half of Canadian workers are already covered by paid sick leave benefits.

This paper documents the dimensions of each of these intervening steps in calculating the gross bottom-line cost impact of requiring employers to offer up to 10 days paid sick leave. On the basis of official statistical data describing each of these intervening steps, we conclude that implementing this provision would lead to an **increase in total business expenses of just 0.21 percent** in British Columbia. We test this estimate with a number of sensitivity scenarios allowing for variability in key input parameters, and are confident that the final gross impact on business costs will fall between 0.15% and 0.30% of total business costs. Some business lobbyists invoke a worst-case scenario in which every worker claims every single day of sick pay they are entitled to, whether they are ill or not.⁸ But even this far-fetched scenario results in a gross cost impact of just 0.33% (one third of one percent) on existing business costs. In an environment in which supply chains, consumer behaviour, and prices are changing rapidly (as the economy recovers from the pandemic), the claim that an increase in business costs of this order of magnitude could cause widespread bankruptcy is simply not credible. It should be rightly discounted as self-interested fear-mongering by a sub-section of the business community which wants continued leeway to ignore the health and well-being of their employees, their customers, and the public as a whole.

Moreover, even these very modest estimates of the gross impact on business expenses of a 10-day paid sick leave policy overstate the final impact on B.C. employers. Offsetting much, or even all, of these gross cost impacts are a range of direct and indirect benefits and savings resulting from the improved health protection of B.C. workers. These factors are difficult to quantify, but their significance has been confirmed in published scientific research. They include:

- Improved attendance among colleagues, who are less exposed to contagion.
- Reduced absences for sick workers themselves, due to faster treatment and better prevention.
- Reduced “presenteeism”: workers who attend work even though unable to perform their duties, damaging productivity.
- Better staff recruitment and retention.
- Enhanced business reputational value.
- Stronger public health outcomes and more profitable macroeconomic conditions.

To put it bluntly, the benefits to business of helping prevent another pandemic – with its catastrophic impacts on economic activity and profit – obviously overwhelm the addition of one-fifth of one percent to total business expenses. On a net basis then,

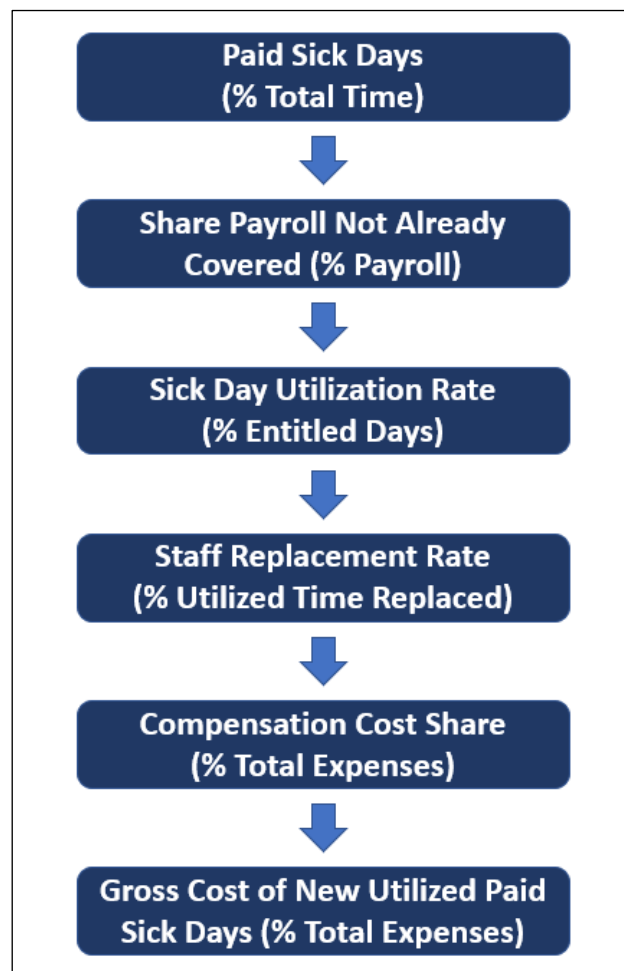
⁸ As discussed below, this scenario is not consistent with observed data on actual illness absences from work by Canadians with paid sick leave coverage.

considering these direct and indirect spillover benefits, it is unlikely that a policy to provide 10 days of paid sick leave protection to B.C. workers would have any measurable impact on overall costs. The overwhelming lesson of the COVID-19 pandemic is that this basic protection must be implemented quickly and permanently, for the well-being of workers; their colleagues, customers, and clients; and the broader community.

Components of Gross Cost, Paid Sick Leave Benefits

The extension of a statutory entitlement to paid sick leave will have an impact on the gross operating cost of employing businesses, but only after transmission through several intervening steps of influence. These intervening stages of effect are illustrated in Figure 1.

Figure 1. Gross Impact of Paid Sick Leave Benefits on Business Costs



First, the number of paid sick days made available to workers can be calculated and expressed as a share of total compensated time. The number of days to which workers are entitled depends on the specific provisions of the proposed regulation (including phase-in timetables). Secondly, about half of Canadian workers are already covered by paid sick leave benefits, and that will reduce or eliminate the incremental cost of the

new program for many employers. In addition, not all paid sick day entitlements will be used by workers, and that will further reduce the cost to employers. Moreover, even when workers claim paid sick days, they will not always be replaced with alternate staff resources. Finally, the relative importance of additional gross sick pay costs depends on the importance of labour compensation in the overall envelope of business expenses.

Parameters describing each of these stages in the transmission of new paid sick day entitlements into overall business costs are considered in the following sections.

NUMBER OF DAYS PROVIDED

Most proposals for paid sick days require new employees to accumulate these entitlements on a graduated basis, based on length of service. This means that not all workers will have access to the maximum level of benefits specified. In this estimation exercise, we simulate the 10 paid sick day proposal submitted by the B.C. Federation of Labour (2021). In this proposal, every worker is entitled to 3 days paid sick leave per year on commencement of their job. They then accumulate one more hour of sick pay for every 35 hours of additional hours of work, up to a maximum of 10 days. Workers receive an additional 3 days on each anniversary of their commencement. Those who do not use their full entitlement of paid sick days in a year of work (dated from the anniversary of commencement) can carry forward up to 10 days into the following year. Additional hours are then accrued (at one hour for every 35 hours worked), again up to 10 days of entitlement. Part-time workers receive proportional entitlements according to their usual pattern of hours worked.

Under this scheme, workers with less than one year of seniority in their position receive less than 10 days of coverage. Their entitlement grows from 3 days at commencement, to approaching 10 days by the end of their first year (depending on hours worked). Workers with more than one year of tenure may also not always have access to 10 full days of coverage, depending on how many unused days they carried over from previous years of employment. This means that a significant share of workers will not have access to 10 full days of coverage at any point in time: those with less than 1 year of experience, and those with more seniority who did not carry over sufficient days (7) to fully and immediately top up their entitlement to the 10 day maximum at the beginning of the next year.

As summarized in Table 1, in 2019 (the last full year before the pandemic), 21.5% of employed workers in B.C. had been with their current employer for less than one year, and hence would have access to less than 10 days of paid sick day coverage under this

proposal. 6.3% of workers had been with their current employer less than 3 months; another 6% for between 4 and 6 months; and 9.2% for between 6 months and a year.

Table 1		
Short-Tenure Employment in B.C., 2019		
Length of Tenure	Number of Employees (000)	Share of Total (%)
Under 3 months	166.7	6.3%
3-6 Months	159.9	6.0%
6-12 Months	246.6	9.2%
Sub-Total: Under 1 Year	573.2	21.5%
Over 1 Year	2,093.2	78.5%
Total	2,666.4	100.0%
Source: Author's calculations from Statistics Canada Table 14-10-0054-01.		

Table 2 indicates how entitlements to paid sick days would be phased in over the first year of a worker's tenure (under the B.C. Federation of Labour Proposal). They receive an immediate entitlement of 3 days when they start their job. Then they accumulate additional days at a rate of slightly over one-half day per month served (based on the accumulation formula of one hour per 35 hours worked⁹). By the end of their first year, most new staff will have worked up to almost the maximum of 10 days coverage. Averaged over the course of the year (and weighted for the varying proportions of employment with differing tenures), this implies an average of 6.1 days paid sick leave available for workers in their first year.

Even workers with more service, however, are not immediately entitled to 10 days paid sick leave, depending on how much leave they used in the previous year. The proposed formula allows for up to 10 days to be carried over into the next year of service, based on anniversary of service. We simulate the impact of this provision by assuming an average rate of utilization corresponding to the base case utilization rate described in Table 6 below: under plausible assumptions, that base case assumes workers use an average of 5.6 days of paid sick leave per year, leaving 4.4 days to be carried over to the next year. Combined with the 3 new days immediately credited on commencement of the next year, workers start that next employment year with an expected entitlement of 7.4 days. Gaining an additional hour of credit for each 35 hours worked, they then regain the maximum 10 days of entitlement roughly midway

⁹ In the description provided in Table 2, we utilize the actual 2019 average work week of 32.8 hours (including both full- and part-time workers).

through the year. Over the year as a whole, workers with more than one year of experience are entitled to a weighted average of 9.4 days paid sick leave.

Table 2			
Phased-In Coverage for New and Returning Employees			
Month	New Hires (Under 1 Year Tenure)		Returning Workers
	Days	Share All Employment	Days
1	3	2.1%	7.4 ¹
2	3.6	2.1%	8.0
3	4.2	2.1%	8.6
4	4.9	2.0%	9.3
5	5.5	2.0%	9.9
6	6.1	2.0%	10
7	6.7	1.5%	10
8	7.3	1.5%	10
9	8.0	1.5%	10
10	8.6	1.5%	10
11	9.2	1.5%	10
12	9.8	1.5%	10
Average	6.1	21.5%	9.4
Total Average	8.72		
Share Annual Work Time	3.36%		
Source: Author's calculations from Statistics Canada Table 14-10-0054-01 and B.C. Federation of Labour (2021) as explained in text.			
1. Assumes carry-forward equal to 10 days less base-case utilization (5.6 days, shown in Table 6).			
2. Assumes average work week of 32.8 hours (2019 actual).			
3. Weighted by monthly shares of total employment under 1 year tenure.			

Considering both new hires and those with over one year of seniority, therefore, this analysis implies a weighted average entitlement across the whole labour market of 8.7 days of paid sick leave. The requirement for phasing in the 10 days entitlement (rather than granting it immediately to every worker regardless of service) thus reduces the average entitlement (and presumed potential cost) by 13%. This represents 3.36% of a normal full year (52 weeks) of compensation.

SHARE PAYROLL NOT ALREADY COVERED

About half of Canadian workers already receive paid sick leave benefits from their employer (not just the minimal statutory benefits provided in some jurisdictions).¹⁰ On the basis of data from Statistics Canada's General Social Survey, Chen and Mehdi (2018) report that 42.4% of employees were covered by employer-paid sick leave benefits in 2016. More recent data from another Statistics Canada survey (the Survey of Quality of Employment) indicates that a higher proportion of workers, 52.1%, were covered by employer-paid sick leave provisions when the COVID-19 pandemic hit in March 2020 (Statistics Canada, 2021). Two-thirds of permanent workers had access to paid sick leave, but a much smaller share of temporary workers. In B.C., Ivanova and Strauss (2020) report survey results indicating that 47.1% of workers in this province had access to paid sick leave benefits in 2019. Macdonald (2020) utilized micro-data from Statistics Canada's Labour Force Survey to estimate that 48% of workers who experienced absences from work for more than one week due to their own illness or disability in 2019, received pay from their employers for that leave.¹¹

The implication of this existing level of paid sick leave coverage is that for many employers, the new 10-day paid sick leave requirement will not impact compensation costs at all. Since they already provide some or all of that entitlement through their existing compensation policies, the new policy will not fully increase entitlements or costs. For employers who provide some paid sick leave coverage, but not the full 10 days, they will experience some additional gross costs but not as much as those who currently provide no paid sick leave benefits. Existing sick pay policies may reflect the impact of past collective bargaining between employers and trade unions; they may also reflect unilateral decisions by employers in non-union settings to provide this benefit as a best practice.

The impact of these existing paid sick leave plans on the gross costs of the proposed new policy are even more significant, when we take into account the fact that workers in higher-paid positions are more likely to be already covered by these benefits. Workers in unionized positions (offering higher wages), those in public sector workplaces, and those in professional, managerial, and technical roles are all more likely to be covered by existing paid sick leave provisions.¹² Workers in lower-income jobs are less likely to be covered by these benefits. As a result of the correlation

¹⁰ As discussed below, not all of those existing plans provide 10 days or more of coverage.

¹¹ Macdonald notes that in some cases that pay could reflect entitlements or supports other than paid sick leave, such as workers who used their own vacation credits to fund an absence for illness.

¹² See Chen and Mehdi (2018), Table 2, for analysis of the dispersion of paid sick leave benefits across industries, occupations, and age groups.

between paid sick leave coverage and incomes, the proportion of total *compensation* covered by these benefits at present is greater than the proportion of *workers* covered. This further reduces the incremental cost of the proposed new program.

Table 3 Coverage of Workers and Compensation by Paid Sick Days B.C., 2019				
Income Category	Share of Employment (A)	Share of Total Compensation (B)	Category Share: Workers Without Sick Pay (C)	Share of Total Compensation Without Sick Pay (B*C)
Less than \$20,000	10.9%	3.1%	92.9%	2.8%
\$20,000 to \$29,999	8.4%	3.4%	84.0%	2.8%
\$30,000 to \$39,999	9.3%	5.2%	64.8%	3.4%
\$40,000 to \$49,999	12.8%	9.3%	51.6%	4.8%
\$50,000 to \$59,999	13.4%	11.9%	40.9%	4.9%
\$60,000 to \$79,999	17.2%	19.3%	35.8%	6.9%
\$80,000 to \$99,999	14.8%	21.4%	37.9%	8.1%
Over \$100,000	13.2%	26.5%	37.0%	9.8%
Total	100.0%	100.0%	52.9%	43.5%
Source: Author's calculations from Ivanova and Strauss (2020). Compensation share estimates based on midpoints of each range, except for the lowest range (assumed average \$17,500) and the highest range (assumed \$125,000).				

The reports by Ivanova and Strauss (2020) and Macdonald (2020) cited above both provide a disaggregation of paid sick leave coverage according to income level. In the case of the B.C. survey reported by Ivanova and Strauss (see Table 3), paid sick leave coverage ranges from just 7% for workers earning under \$20,000 per year, to about 65% for those earning over \$60,000. On a weighted average basis, the 52.9% of workers who were not covered by these benefits in 2019, accounted for only 43.5% of total compensation (since lower-income workers less likely to have paid sick leave coverage). The other 56.5% of compensation in the province is already covered by at least some paid sick leave provisions. A similar correlation between income and

coverage is reported by Macdonald from Statistics Canada micro data (Table 4). Prevalence of paid leave for full-week own illness absences grows monotonically from just 14% in the lowest income decile (those under \$16,000 per year) to 74% in the highest-income decile (those earning over \$94,000). Macdonald's results imply a similar share of total compensation that is not already covered by paid absence protection of some kind: 58.3%.

Table 4 Coverage of Workers and Compensation by Paid Full Week Sickness/Disability Leave, Canada, 2019				
Income Category	Share of Employment (A)	Share of Total Compensation (B)	Category Share: Workers Without Sick Pay (C)	Share of Total Compensation Without Sick Pay (B*C)
Under \$16,000	10%	2.2%	86%	1.9%
\$17,000 to \$28,000	10%	4.1%	73%	3.0%
\$28,000 to \$35,000	10%	5.8%	67%	3.9%
\$35,000 to \$41,000	10%	7.0%	58%	4.1%
\$41,000 to \$48,000	10%	8.2%	51%	4.2%
\$48,000 to \$55,000	10%	9.5%	47%	4.5%
\$55,000 to \$65,000	10%	11.0%	42%	4.6%
\$65,000 to \$78,000	10%	13.2%	35%	4.6%
\$78,000 to \$96,000	10%	16.0%	31%	5.0%
Over \$96,000	10%	23.0%	26%	6.0%
Total	100%	100%	51.6%	41.7%
Source: Author's calculations from Macdonald (2020). Compensation share estimates based on midpoints of each range, except for the lowest range (assumed average \$12,000) and the highest range (assumed \$125,000).				

On this analysis, close to 60% of total payrolls in the economy are paid to workers who already have paid sick leave coverage. However, the data on coverage of existing sick

pay provisions do not specify the *level* of coverage (in days per year). Not all of those currently covered by paid sick leave will receive the *full coverage* contemplated by the program proposed for B.C. (which would provide up to 10 paid sick days per year depending on seniority and past utilization, and a weighted average of 8.7 days across the full workforce). Thus there will be an incremental cost incurred under the new program even to some employers who already offer partial paid sick leave entitlements.

To adjust for this factor, we assume that half of workers covered by existing paid sick day policies receive an equivalent or greater amount of coverage (on average 8.7 days or more per year) than is contemplated in the B.C. proposal. One quarter are assumed to receive 5 days per year, and one quarter just 3 days per year. While no data on the detailed scope of existing sick leave policies is available, based on consultations with employee benefit professionals we believe this assumption is conservative. In practice, most existing paid sick leave benefits cover well over 3 days per year; many then transition workers to short- or long-term disability insurance benefits as needed. Moreover, those workers who do receive longer coverage at present, are more likely to be concentrated in higher income brackets; this further reduces the share of current *compensation* affected by the new paid sick day policy.¹³

With this adjustment, the effective share of total compensation which would be subject to the expansion of paid sick leave benefits increases as follows. In addition to the 42% of compensation which is currently subject to no paid sick leave protection, 28% of the remaining 58% of compensation (or 16% of total compensation) currently covered by paid sick leave benefits would also experience partial cost increases resulting from the expansion of paid sick leave (to a weighted average of 8.7 days).¹⁴ This indicates that a combined total of 58% of existing total compensation (the 42% corresponding to workers with no coverage at present, and another 16% from workers who receive some sick pay but less than the new minimum) will be affected by the expansion of sick days to the new standard. The remaining 42% of the total compensation bill would not be affected by the new policy.

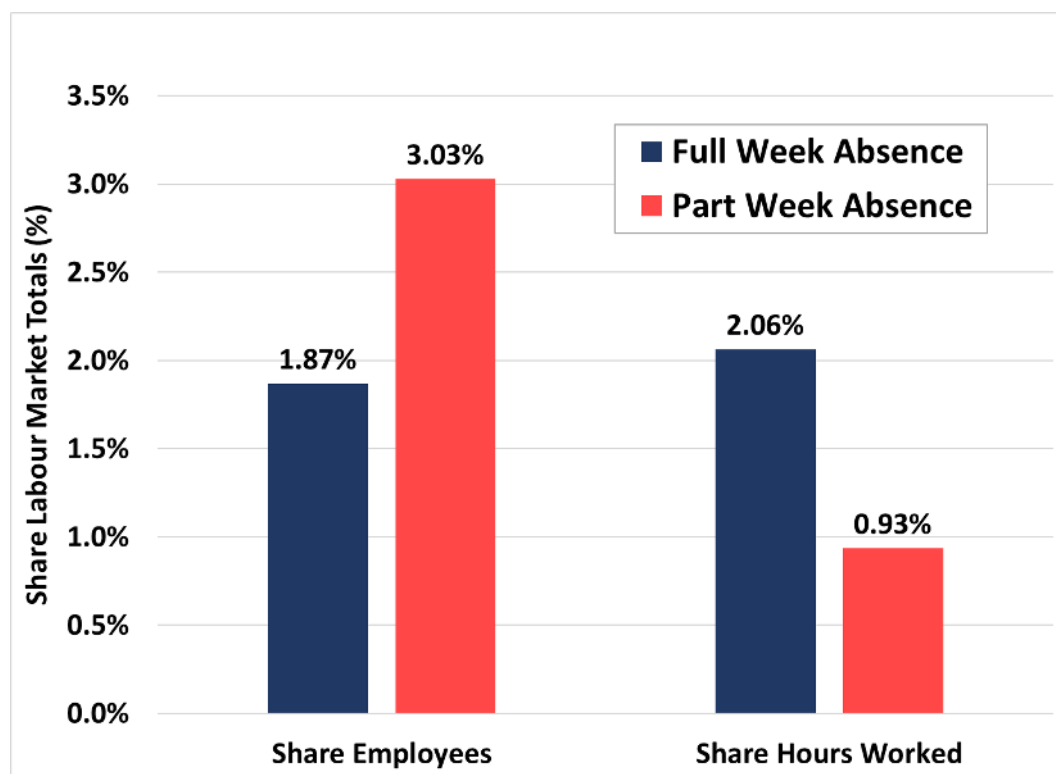
¹³ For the same reason as the share of *compensation* without any paid sick leave coverage is significantly lower than the share of *workers* without any coverage.

¹⁴ The increase of nearly 6 days paid sick pay for the 25% of covered compensation assumed to receive 3 paid sick days represents 17% of total compensation for workers with paid sick leave coverage, and the increase of nearly 4 days paid sick pay for the 25% of covered compensation assumed to receive 5 paid sick days represents another 11% of total compensation.

PAID SICK DAYS UTILIZATION

Not all of the paid sick leave entitlements afforded to workers under the proposed program in B.C. will be utilized. The program is intended for workers who need to stay home from work due to illness or exposure to illness. The program will have certain qualifying rules and conditions which workers will need to follow (although punitive requirements such as compulsory doctors' certificates should not be included in those procedures¹⁵). Many business critics of required paid sick leave simply assume that every day of available leave will be taken by workers (who presumably invent purported illnesses and violate normal rules in order to stay away from work without losing pay). This assumption is not only offensive; it is also inconsistent with available empirical data regarding workers' absences from work.

Figure 2. Absences from Work for Own Illness or Disability, Canada, 2019



Source: Author's calculations from Statistics Canada Tables 14-10-0033-01 and 14-10-0122-01.

Statistics Canada tracks absences of employed workers from their jobs due to their own illness or disability. The statistics on this matter (published as part of the monthly Labour Force Survey) fall into two categories: workers who were absent for only part of the reference week due to their own illness or disability, and those who did not

¹⁵ There are many reasons to avoid such measures, including the disincentive it creates to using sick days, and new public health risks caused by compulsory visits by sick workers to doctors' offices.

work at all during the reference week due to their own illness or disability (but were still employed).¹⁶ Figure 2 illustrates the incidence of these two types of illness-related absence for Canada in 2019 (the last full year before the COVID-19 pandemic). On any given week, about 3% of workers were absent for part of the week due to illness; another 1.87% were absent for the full week. However, partial-week absences accounted for a smaller share of total hours worked (under 1% of the economy-wide total) than full-week absences (over 2%).

Table 5
Absences from Work for Own Illness or Disability
Canada, 2019

	Workers (avg., 000)	Hours (million/year)	Average Hours per Absent Worker per week
Part Week Absences	574.6	302.8	10.1
Full Week Absences			
<i>Total (All Weeks)</i>	354.5	668.1	36.2
<i>1 or 2 Weeks</i>	93.2	162.1	33.5
All Absences Under 10 Days	667.8	464.9	13.4
Economy-Wide Employed	18985.6	32394.1	
Proportion Absent Under 10 Days	3.52%	1.44%	
Absences Under 10 Days Per Employed Worker	Hours: 24.5	Days: ¹ 3.73	
Source: Author's calculations from Statistics Canada Labour Force Survey PUMF.			
1. Days calculated on basis of average work week (32.8 hours), reflecting mix of full-time and part-time employment.			

On average in 2019, 575,000 workers were absent from work for part of the week, on any given week, due to their own illness or disability (see Table 5). On average, each of them missed just over 10 hours per work in the week of absence. Just over 350,000 additional workers missed the entire week, on average, for reasons of their own illness or disability. They missed, on average, about 36 hours for each week of work they missed. However, the group of workers who missed an entire week of work consists mostly of workers experiencing longer absences than would be covered under the

¹⁶ Data for this latter category are reported by the employer.

proposed 10 days paid sick leave plan. The average length of absence for this group in 2019 was 20 weeks. Only 93,000 workers per week, on average, missed an entire week due to an absence that would be covered by a 10-days sick leave plan: that is, they were absent for only 1 or 2 weeks. On average, that smaller group missed 33.5 hours per week of full absence.¹⁷

As summarized in Table 5, this indicates that a total of 3.5% of employed workers in 2019 (on average over the year) were away from work for reasons of their own illness or disability that could be covered by the 10-day paid sick leave proposal. Their absences totalled to just under 1.5% of all time actually worked in the labour market that year. Across the whole workforce, these absences (covered under a 10-day paid sick leave plan) amounted to an average of 24.5 missed hours of work per worker for the year as a whole, or 3.7 days of work (calculated according to the average work week of 32.8 hours¹⁸).

Table 6 Utilization Scenarios			
Case	Assumption	Days	Utilization ¹
Actual	Actual absences under 10 days (2019) per employed worker.	3.73	
Base Case	Workers with paid sick leave twice as likely to be absent.	5.60	64.2%
Low Case	Utilization equals existing average incidence of sick leave.	3.73	42.8%
High Case	Full utilization of all entitled days.	8.72	100.0%
Source: Author's calculations as explained in text.			
1. Relative to assumed average entitlement of 8.72 days (as calculated in Table 2).			

On the basis of the recorded experiences of Canadian workers' absences from work (of 2 weeks or less) for reasons of their own illness or disability in 2019, we develop three scenarios of potential paid sick day utilization, summarized in Table 6. In practice, Canadian workers took an average of 3.73 days of leave for their own illness or disability in 2019 (excluding absences longer than 2 weeks). This reflects a mixture of workers with paid sick leave coverage, and those without. We anticipate that workers with paid sick leave coverage are more likely to be absent from work than those

¹⁷ Average hours missed is slightly lower for those who had 1- or 2-week absences, compared to the larger group of all full-week absences. This indicates that workers who are able to endure longer absences without having their employment terminated are more likely to be in full-time positions.

¹⁸ This average incorporates part-time workers.

without,¹⁹ but no comprehensive data is available to indicate the scale of that differential. If this is the case, then total absences will grow after the introduction of paid sick leave protection. Keep in mind, however, that since half of Canadian employees already have access to paid sick leave benefits, the potential increase in average illness absences resulting from paid sick days is limited. Even on the extreme and unrealistic assumption that workers without paid sick leave coverage *never* miss work for illness, the implied average sickness absence for those *with* coverage would be around 7.4 days.²⁰

In our base case utilization scenario, we assume that at present workers with paid sick leave coverage are twice as likely to be absent from work for illness than those without coverage. This implies average absences (for those with coverage) of 5.6 days per year.²¹ That in turn suggests a utilization rate of 64% (relative to the weighted average 8.7 days of leave provided for under the proposed B.C. plan). In a low case scenario, we assume that workers newly covered under the proposed plan would take the same number of absences as the average experienced by Canadian workers today (3.73 days). Finally, we also simulate a high case scenario which corresponds to the dire “worst-case” hypothesis invoked by some business critics: namely, that all workers will claim every single day of paid sick leave they are entitled to, whether they are ill or not. As described above, this is not consistent with observed experience even on the extreme assumption that workers without paid sick leave coverage are *never* absent from work for illness.²² Nevertheless, we simulate this (statistically inconsistent) scenario to consider the impact on bottom-line gross costs even if it were true (discussed further in the analysis of results below). As shown below, even this unrealistic assumption implies very small increases in total business costs.

¹⁹ This conservative assumptions may not always apply: some workers are so ill they must stay home from work even without paid sick leave coverage, and there is some evidence that provision of paid sick leave reduces incidence of illness among workers (including by reducing contagion between workers) hence reducing the overall incidence of sick leave (see, for example, Piper et al., 2017).

²⁰ If all sick leave was taken by the roughly 50% of workers with paid sick leave protection, then the 3.7 days of average absence demonstrated across the labour market would correspond to 7.4 days for those with coverage, and 0 for those without.

²¹ Since about half of workers have access to paid sick leave, and half do not, a weighted average of the two that implies a 2-to-1 ratio in utilization between the former and the latter can be calculated by increasing the average by 50% for the former, and reducing it by 50% for the latter.

²² If workers without paid sick leave coverage were never absent from work for illness, then the average number of absences for those who have coverage would be 7.4 days per year – still below the weighted average 8.7 days that would be provided under the B.C. proposal.

SHARE ABSENT TIME REPLACED

Even when a sick worker stays home from work with pay, this does not necessarily lead to an increase in their employer's compensation costs. Only if the worker is replaced by someone else to perform their duties while absent, does the employer's total compensation bill increase. In many occupations, absent workers are not replaced when they are ill. Their duties may be reallocated to other staff members in their absence. Or their work may simply accumulate, awaiting their return; this is especially common for shorter-term absences in jobs which provide more autonomy for workers in performing their duties (such as many office, professional, technical, or managerial roles). In other occupations – particularly those for which the flow of work dictates specific staffing levels at all times – ill workers would need to be immediately replaced, resulting in additional compensation expenses.

We define the “replacement ratio” as the share of absences from work for reasons of illness that is likely to be replaced by incremental staff allocations. We consider the likely scale of this replacement ratio based on an occupational disaggregation of B.C. employment, using Statistics Canada data for 2019 (the last full year before the pandemic). Table 7 reports current employment shares across 40 occupations defined by Statistics Canada's National Occupational Classification (NOC) system. Each occupation is assigned a score of 1 to 4, based on how likely work in that occupation would need to be immediately covered by replacement staff in the event of a worker's absence for reasons of illness. A score of 1 corresponds to mild replacement needs (assuming 25% of absent hours are covered with new staff). A score of 4 assumes immediate and complete replacement requirements (so that 100% of absences must be covered with replacement staff). This is appropriate for work environments in which specified staffing requirements must be fulfilled at all times (such as manufacturing assembly lines, many hospitality workplaces, regulated health care settings, and others). Intermediate occupations are scored accordingly (50% for category 2, and 75% for category 3).

Note that in this analysis, there are no occupations for which we assume that *no* staff replacement occurs for ill workers. This is a conservative assumption. Even in professional and management settings, a certain cushion in ongoing staffing decisions and workload assignments may be maintained to reflect the fact that most workers experience some illness absences over the course of the year. Nevertheless, our assumption that at least 25% of absent time must be replaced in all occupations (and up to 100% in many) likely overstates the true extent of replacement decisions.

Table 7					
Staff Replacement Likelihood by Occupation					
Occupation	Share BC Emplymt (% , 2019)	Staff Replcmt Scale	Occupation	Share BC Emplymt (% , 2019)	Staff Replcmt Scale
Management occupations			Occupations in art, culture, recreation and sport		
Senior management	0.25%	1	Professional	1.30%	1
Specialized middle management	2.46%	1	Technical	2.50%	2
Middle mgmt., retail/wholesale	3.67%	2	Sales and service occupations		
Middle mgmt., trades/transport	2.74%	3	Retail supervisors and specialized	3.80%	3
Business, finance and administration occupations			Service supervisors and specialized	3.63%	2
Professional	4.27%	1	Wholesale & retail salespersons	4.47%	3
Supervisor & admin.	4.69%	1	Service reps. & personal services	5.24%	2
Finance & insurance	1.56%	2	Sales support	3.18%	2
Office support	3.68%	2	Service support & other service	5.41%	3
Distribution, scheduling	1.40%	3	Trades, transport and equipment operators and related occupations		
Natural and applied sciences and related occupations			Industrial, electrical & construction	5.78%	3
Professional	4.39%	1	Maintenance & equipment operation	3.30%	4
Technical	3.32%	3	Installers, repairers servicers, handlers	1.39%	3
Health occupations			Transport & equipment operation	3.44%	4
Nursing	1.76%	4	Helpers & labourers	0.73%	3
Other professional	1.60%	3	Natural resources, agriculture and related production occupations		
Technical	2.03%	4	Supervisors & technical	1.00%	2
Health support	1.97%	3	Workers	0.53%	3
Occupations in education, law, social, community and government services			Harvesting, labourer, landscaping	0.62%	4
Professional education	3.29%	3	Occupations in manufacturing and utilities		
Professional law, social, government	3.00%	1	Supervisors and central control	0.95%	3
Paraprofessional	2.25%	3	Operators and related production	1.11%	4
Front-line public protection	0.65%	4	Assemblers	0.61%	4
Care providers and support	1.48%	3	Labourers	0.55%	3
TOTAL	100%	2.48 ¹	62.1% replacement		
Source: Author's calculations from Statistics Canada Table 14-10-0296-01.					
1. Weighted average.					

On the basis of these scores, and weighted according to each occupation's share in total B.C. employment, we compute a weighted average replacement ratio of 62.1%. We use this assumption in our base case gross cost estimates conducted below. Then we conduct additional simulations to test the sensitivity of that estimate to variability in this parameter.

SHARE OF LABOUR COSTS IN TOTAL BUSINESS COSTS

The last stage in quantifying the relative importance of additional paid sick leave protections for workers for overall business costs, is to consider the scale of labour costs as a proportion of overall business expenses. In most businesses, direct labour costs (for wages and salaries, as well as fringe costs such as payroll taxes and non-wage benefits) make up a small portion of overall expenses. To the extent that labour expenses are outweighed by non-wage costs in running a business or agency, the impact of new paid sick leave entitlements on overall operating costs will be diluted accordingly. The degree of this dilution will depend on the relative labour-intensity of production of different industries: in more labour-intensive sectors, labour costs account for a larger share of total costs, and hence the proportional impact of new paid sick days will be felt more strongly.

Table 8 lists major industrial groups in the B.C. economy, ordered according to the share of labour costs relative to total payments made by each industry (including payments to the owners of capital in each sector). This data is attained from Statistics Canada's system of input-output statistics. Table 8 includes one-half of employers' social contributions (premiums for CPP, EI, WorkSafeBC and the Employer Health Tax) in reported labour costs.²³ In some cases, those taxes will be paid even on payments to workers absent from work for illness. In other cases, they will not be (such as for workers whose annual income exceeds relevant ceilings, even without the additional sick pay). Including half of payroll taxes is an appropriate approximation of the net impact of new paid sick leave benefits on total labour costs.

²³ Workers' shares of these deductions are included within their wages and salaries.

Table 8
Labour Cost Intensity, BC Industries, 2017

Industry	Labour Costs as Share Total Payments ¹
Low Labour Intensity Sectors (below 20%)	
Fishing, hunting and trapping	8.4%
Other activities of construction	10.1%
Crop and animal production	12.1%
Mining, quarrying, oil & gas	12.8%
Utilities	15.5%
Finance, insurance, real estate, rental	18.9%
Residential building construction	19.1%
Manufacturing	19.3%
Forestry and logging	19.7%
Moderate Labour Intensity Sectors (20-40%)	
Other provincial and territorial govt	22.1%
Engineering construction	24.8%
Transportation and warehousing	25.8%
Non-residential building construction	26.7%
Arts, entertainment and recreation	27.2%
Information and cultural industries	29.1%
Repair construction	32.3%
Health care and social assistance	33.0%
Accommodation and food services	33.7%
Educational services	34.3%
Other municipal government services	37.9%
Professional, scientific & technical	38.2%
Admin., support, waste management	38.3%
High Labour Intensity Industries (Over 40%)	
Support activities for agriculture	40.0%
Retail trade ²	41.3%
Wholesale trade ²	42.5%
Other services (excl. public admin.)	44.6%
Government health services	45.9%
Other aboriginal government services	48.0%
Non-profit institutions	48.6%
Other federal government services	51.1%
Government education services	60.8%
Economy-Wide Weighted Average	27.2%
Source: Author's calculations from Statistics Canada, Supply and Use Tables.	
1. Includes 50% of employer non-wage social contributions.	
2. Share of total payments excluding merchandise & inventory costs.	

Industries listed in Table 8 are grouped into three broad categories: low labour intensity (with labour costs under 20% of total payments), moderate labour intensity (20-40% of total payments), and high labour intensity (over 40% of total payments). Resource-based industries and the financial sector allocate very low proportions of total expenses to labour costs. Human and caring service industries (such as government services, health care, and education) allocate a larger share of total payments to workers. The retail and wholesale trade sectors are included in the high labour intensity category (with compensation costs slightly over 40% of total costs); this ratio, however, does not include the cost of merchandise processed through retail and wholesale operations, and thus relative to all expenses the actual share of compensation is lower than this (many retailers, for example, must first purchase their inventory before re-selling it). Other industries have moderate degrees of labour intensity.

Across the whole set of industries in B.C., a weighted average of 27.2% of total business payments consists of labour compensation (including half of payroll tax costs). We utilize this share in the base case gross cost estimates developed below, and then perform additional simulations to test for sensitivity to potential variation in that share. This assumption is conservative for the following reason: most of the higher labour intensity industries listed in Table 8 (especially those undertaken by public sector agencies) already provide extensive paid sick leave benefits to their workers. Therefore, the impact of labour intensity on the relative importance of new sick pay requirements will be lower than the economy-wide average reported in Table 8.

Estimates of Gross Cost of 10 Paid Sick Days Policy

Working through the five key steps considered above, an estimate of the gross cost impact of the proposed 10-day paid sick leave policy can be generated. We do this by tracing its impact on new paid sick days available to workers; the ultimate number of paid sick days claimed; the share of claimed days resulting in assignment of replacement workers; and the bottom-line impact on total business costs. This chain of effect is summarized in Table 9.

Table 9 Base Case Estimation, Gross Cost 10 Days Paid Sick Leave		
Parameter	Cost Impact	Unit
Qualifying days (8.72 weighted average)	3.36%	Share of full-year payroll
Share payroll not covered	0.5811	Share of payroll not already receiving the benefit
Utilization rate	0.6415	Share of entitled days utilized
Replacement rate	0.6209	Share of paid sick days replaced by employer
Labour cost share	0.2719	Share of labour costs in total payments
Final Cost	0.21%	Impact of new policy on total business cost
Source: Author's calculations from Statistics Canada and other data sources as described in text.		

The proposed policy would provide paid sick days equivalent to 3.36% of a normal compensated year of employment. Adjusting for the share of compensation not already covered by this benefit, the share of entitled days which would be utilized, the proportion of utilized days replaced by alternate staff, and the share of labour costs in total business expenses, results in a **final gross cost estimate of 0.21% of existing business payments**. In other words, average business costs in B.C. would increase by an estimated one-fifth of one percentage point as a result of this important measure to protect workers' – and the public's – health.

Of course, some businesses will experience a greater increase in costs than this (if they do not offer paid sick days at present, if sick staff have to be replaced more fully, and/or if labour costs are a larger share of their total costs). This is a simple and inevitable consequence of the fact that businesses that have been employing labour

without taking into account this essential and minimum health protection, will have further to catch up in adjusting to the new post-COVID reality of public health. In contrast, businesses which already offer decent paid sick leave benefits (covering up to half of B.C. workers at present), will experience little if any change in costs. Their prudence and responsibility will thus be rewarded. Failing to implement this measure because some employers will experience higher costs, as a result of their own failure to provide this protection in the past, would amount to continuing to subsidize those firms' dangerous behaviour. And even for those firms, the bottom-line impact on total costs will be very small: almost always well under 1% of their total expenses.

Keep in mind as well that the introduction of paid sick days is occurring in a macroeconomic context in which many other significant changes in absolute and relative prices are occurring, as businesses and consumers respond to the reopening of the Canadian economy. The overall pace of consumer price inflation in Canada has increased significantly in the wake of reopening – reaching 4.4% on a year-over-year basis by September 2021.²⁴ While inflation will likely moderate in coming months (as businesses and supply chains adjust to the post-COVID environment), nevertheless it is clear that other elements of business costs are changing much more substantially than the conceivable impact of paid sick days on total business costs. In this turbulent environment, and relative to other much larger changes in absolute and relative prices, a 0.2% increase in total business costs resulting from this prudent and overdue public health measure will be even less noticeable to businesses and consumers alike.

Table 10 Sensitivity Analysis, Gross Cost, 10 Days Paid Sick Leave Plan					
Parameter Variation	Base Case	Low Case		High Case	
		Variation	Final Cost	Variation	Final Cost
Share payroll not covered	0.5811	0.500	0.18%	0.667	0.24%
Utilization rate	0.6415	0.428	0.14%	1.000	0.33%
Replacement rate	0.6209	0.500	0.17%	0.750	0.26%
Labour cost share	0.2719	0.150	0.12%	0.400	0.31%
Source: Author's calculations from Statistics Canada and other data sources as described in text.					

²⁴ It is noteworthy that B.C.'s year-over-year inflation (3.5% in the year ending September) was the second-lowest of any Canadian province, despite recording the strongest labour market recovery in Canada, and requiring the highest minimum wages. This confirms that the impact of changes in compensation policy on bottom-line costs and prices is muted, at best.

Due to data limitations, the preceding analysis made assumptions regarding certain parameters required to determine the impact of this new policy on bottom-line business costs. We believe those assumptions have been prudent and, if anything, conservative. Nevertheless, given uncertainty regarding the actual value of some of these parameters, it is appropriate to conduct a sensitivity analysis to consider the extent to which our final gross cost estimate would vary in the event that certain parameters are higher or lower. Table 10 summarizes the outcome of four such sensitivity scenarios, in which we adjust our estimate of final gross cost impacts according to a range of valuations for respective key parameters.

We estimated that 58% of existing total payroll costs in Canada are not currently subject to paid sick leave benefits equivalent to or stronger than the proposed B.C. plan. This included 42% of payroll not covered by any sick leave policy, and a share of the remaining portion reflecting paid sick leave protection shorter than the new policy. Bracketing that assumption (which we believe is conservative), we consider two alternative cases: one in which half of payroll is not covered, and one in which two-thirds of payroll is not covered. The impact on the final gross cost estimate is modest: the gross cost impact now ranges from 0.18% of total costs in the low case, to 0.24% of cost in the high case.

A more significant impact is experienced from altering our assumption regarding the utilization rate of paid sick leave entitlements. We assumed that just under two-thirds of new entitled days would be used by workers each year. This is consistent with the assumption that, at present, workers with sick leave coverage are absent from work twice as often as those without that benefit.²⁵ Again, we believe that assumption is conservative; we expect that the realized utilization rate of the new benefit is likely to be smaller than this. We simulate a low case, therefore, in which just half of the incremental paid sick days are utilized. This reduces the bottom line gross cost impact to just 0.14% of total business payments. In a high case, we simulate the “worst-case” scenario invoked by some business critics: namely, workers claiming *every available paid sick day*, whether they are ill or not. In this case, the utilization rate would be 100%. There is no empirical evidence to suggest that this will occur: to the contrary, official data indicates that workers with paid sick leave benefits today do not claim every single day they are entitled to, and there is no reasonable argument to suppose

²⁵ If workers with paid sick leave benefits take 5.6 days of sick leave per year, equal to 64% of the weighted average entitlement under the proposed B.C. plan, and are twice as likely to take sick leave than those without paid sick leave coverage, then the weighted average incidence of qualifying sick leave (10 days or less) equals the 3.7 days per worker per year reported in Table 5.

that the expansion of these entitlements will lead to rampant abuse of the benefit. Nevertheless, even if that did occur, the impact on bottom-line gross cost is limited. Even with assumed full utilization of all paid sick days, the bottom-line cost increases to 0.33% (that is, one-third of one percent) of total business costs – still too small to make any measurable difference to the overall cost and profitability of business in B.C.

Another key parameter in our base case analysis is the proportion of utilized sick days for which employers are expected to have to organize replacement labour to cover the work that would normally be performed by the ill worker. In some occupations, that is necessary; in many others, it is clearly not (and either the work is shared with colleagues, and/or the worker simply catches up with their duties when they return to their job). Our assumption of a 62% replacement rate is cautious. In particular, we assumed that every worker must have at least 25% of their sick time replaced (either directly with a replacement, or indirectly through higher staffing levels to provide a buffer for the overall incidence of sick leave). In many occupations we have assumed every hour of paid sick leave must be replaced. We bracket this assumption with a low case of 50% replacement, and a high case of 75% replacement. This results in a range of potential bottom-line gross cost estimates falling between 0.17% and 0.26% of total business payments. Again, the impact of variation in this parameter on the assumed gross impact of paid sick leave on bottom-line business costs is modest.

Finally, we conduct an additional sensitivity analysis on the relative importance of labour costs in the total cost profile of B.C. businesses. This variable is directly measurable, and hence less subject to uncertainty than the three sensitivity cases tested above. Nevertheless, we consider the impacts of variability in that parameter. The base case used the actual direct labour cost share (including half of employer payroll taxes) across B.C. industries, equal to 27.2% in 2019. We also simulate a low case of a 15% labour cost share, and a high case with a 40% share. The latter might result if there was extensive cost pass-through of higher compensation costs from an industry's supply chain in the form of higher input prices. The former might result if businesses respond to higher labour costs by reducing labour input through efficiency measures or automation; it could also reflect the fact that higher labour intensity industries (especially public services) are more likely to be already providing paid sick leave benefits today. Even in the high case (which corresponds to near-full pass-through of indirect labour costs through the supply chain), the impact of 10 paid sick days on total business payments increases by just one-tenth of one percentage point, to 0.31%.

One industry where some employers have made particularly dire warnings about the impact of paid sick leave on business viability is the hospitality sector (food service and accommodation). To be sure, there are reasons why the implementation of the new

policy will have a greater proportional impact in this sector, than the economy-wide averages reviewed above – the most important one being that very few workers in this sector currently receive paid sick days from employers (consistent with the generally inferior compensation arrangements in this sector). Also, the hospitality sector is moderately more labour-intensive than other occupations: with compensation (including half of payroll taxes) amounting to 33.7% of total business costs, compared to 27.2% across the whole economy. At the same time, however, there are offsetting factors which reduce the proportionate cost of paid sick days in this sector. These include the very high proportion of workers in the sector with little seniority (37% of workers in B.C. hospitality in 2019 had less than one year of service with their employer, almost twice the share for other industries), and the shorter average working hours in the industry (which means that workers accumulate sick day entitlements more slowly than in other sectors). Moreover, the preponderance of part-time work and the low level of wages (half of economy-wide wage levels) means that sick days, when they are paid, are much less expensive than in other industries.²⁶

Table 11 Gross Cost 10 Days Paid Sick Leave, B.C. Hospitality Sector		
Parameter	Cost Impact	Unit
Qualifying days (8.05 weighted average)	3.10%	Share of full-year payroll
Share payroll not covered	0.8848	Share of payroll not already receiving the benefit
Utilization rate	0.6415	Share of entitled days utilized
Replacement rate	0.7500	Share of paid sick days replaced by employer
Labour cost share	0.3367	Share of labour costs in total payments
Final Cost	0.44%	Impact on total business cost
Source: Author's calculations from Statistics Canada and other data sources as described in text.		

In Table 11 we repeat the estimation of the gross impact on bottom-line business expenses resulting from the proposed 10-day paid sick leave proposal, using parameters specific to the hospitality sector. The average entitlement across the full workforce is reduced (to just over 8 days) by the large share of new workers and the shorter weekly hours of work. A larger share of total payroll is not covered, by virtue of

²⁶ Keep in mind that under the proposal simulated here, part-time workers would receive compensation for sick days in line with their average normal earnings, which are reduced because of their lower hours of work.

the inferior benefit packages currently provided in the industry.²⁷ We assume the same utilization rate of entitled sick days as in the base case estimation, and we impose a higher assumed replacement rate (reflecting that many workers in hospitality, but not all, need to be immediately replaced when they are off work). Finally, we adjust the share of labour costs in total business expenses to reflect the moderately more labour-intensive nature of production in the sector. This analysis suggests that the proportional gross cost of 10 paid sick days in hospitality will be twice as high as in the overall economy²⁸ – but still very small. The new policy would increase total business costs in the sector by 0.44%. Once again, despite the challenges currently facing many hospitality businesses in the wake of COVID-19 lockdowns, damaged consumer confidence, and difficulties recruiting and retaining labour,²⁹ the claim that an increase of less than one-half percent in total costs would cause a wave of business failures (at a time when other costs, and consumer spending patterns, are changing much more significantly) is not economically credible. And the offsetting benefits to hospitality employers of paid sick leave protection (including better retention, reduced contagion among other staff, and enhanced consumer confidence in the safety of dining out) may be even more significant than for other businesses; in this case, the impact of the new policy on the hospitality sector's *net* total costs may be no greater than in the rest of the economy.³⁰

Under any of these scenarios, therefore, it is hard to conceive of a situation in which the implementation of this policy has a measurable bottom-line impact on total business operating costs. In even the worst-case scenarios (and even assuming that every single available paid sick day is claimed), the provision of this benefit results in increases in total business costs of well under one-half of one percent. Given the enormous economic, financial, and human costs of the recent pandemic, it is hard to imagine any responsible business operator concluding that cost is somehow “too

²⁷ Average hourly earnings in the B.C. hospitality sector totalled just \$22,000 in 2019. Based on the Ivanova and Strauss data regarding the availability of paid sick leave across income categories (summarized in Table 3 above), this implies that around 16% of hospitality workers likely have paid sick leave benefits. Adjusting for the share of those with benefits who do not receive the full 10-day entitlement (using the same methodology described above) results in an estimated 88% of the hospitality sector's total payroll not being currently covered by sick pay provisions.

²⁸ The absolute cost of those paid sick days will be lower, due to the hospitality sector's much lower wages and shorter hours of work.

²⁹ Of course, a key reason for hospitality employers' staffing shortages is the highly inferior compensation offered in the industry (with average earnings half economy-wide averages and very poor employment benefits), so in this context the paid sick leave program would help hospitality employers to recruit and retain workers.

³⁰ The nature and extent of these offsetting benefits, and the difference between gross and net costs of the proposed policy, are discussed in the next section.

high.” And it is equally hard to imagine that this policy could lead to any significant change in the cost structures of B.C. businesses – let alone spark widespread business failures, as more extreme business critics have predicted.

Gross Cost and Net Cost

This report has provided detailed analysis and estimates of the gross cost to employers of the introduction of a new paid sick day program in the B.C. economy. This gross cost represents the additional compensation expenses resulting from the payment of up to 10 days' pay per year for workers who must stay home due to illness or exposure to illness. The gross cost depends on several factors, including:

- The share of workers who do not qualify for the full 10 days coverage.
- The share of workers (and compensation costs) who are already covered by existing paid sick day policies.
- The share of paid sick day entitlements which is not utilized by workers because they do not need it.
- The share of utilized paid sick days which is not covered by replacement staffing.
- The importance of non-labour costs in the total cost structure of B.C. businesses.

After considering these factors, the ultimate bottom-line impact on business costs of the new policy is expected to be very small: in the order of one-fifth of one percent of total business expenses. That is not sufficient to have any visible impact on overall business cost competitiveness or profitability. The base case estimate is grounded in assumptions about relevant parameters that are reasonable and, if anything, conservative. But sensitivity analysis confirms that even in the event that the experience of key parameters turns out to be worse than simulated here (including the “worst-case” scenario whereby workers claim every sick day they are entitled to, whether they are ill or not), bottom-line effects on business costs remain very small (never exceeding one-third of one percent of total existing costs).

Even this analysis, however, does not tell the full story of the impact of the new policy on business costs, productivity, and competitiveness. We have measured only the *gross costs* of the new policy on employers' overall compensation bill. Policy-makers should also take into account various *benefits* which employers will also experience as a result of the new policy. These benefits are significant, if difficult to quantify, and include:

- Improved attendance among sick workers' colleagues who are less likely to become ill themselves if sick workers stay away.

- Reduced absences for sick workers: because they can attend to their health requirements more quickly (thanks to paid sick days), ill workers can recover and return to work more quickly.
- Attendance benefits of preventative health: when workers can use paid sick days to undertake preventative health measures (such as vaccinations, check-ups, and other pro-active measures), they are less likely to need sick days in subsequent periods.
- Reduced “presenteeism”: in some cases workers, if financially compelled, will attend work even though they are unable to fully perform their duties. The resulting loss of productivity and efficiency is significant, estimated at billions of dollars per year in lost output.³¹
- Staff recruitment and retention: at a moment when employers in many industries are complaining about challenges in recruiting and retaining staff, provision of a basic employment benefit like paid sick leave will improve morale, reduce turnover,³² and aid in recruitment.
- Business reputational value: consumers will more favourably view businesses which respect this basic benchmark of corporate responsibility, supporting stronger brand value and customer loyalty. Conversely, a business which does not provide paid sick leave, compelling ill workers to attend work anyway, is signalling that the well-being of all stakeholders (including the health of customers themselves³³) is secondary to their own profits.
- Stronger public health outcomes: no individual employer can single-handedly protect public health. But the collective refusal of employers to provide basic health protections (like paid sick days) demonstrably increases the risks of community contagion, which in turn undermines public health and jeopardizes business conditions. In the extreme, if absence of basic protections like paid sick leave increases the risks of society-wide pandemics (like COVID-19), then failure to provide these benefits surely costs businesses many times more than it saves them.

Empirical research has attempted to quantify the value of some of these positive spillover effects of paid sick leave.³⁴ However, the diffuse and indirect nature of these benefits makes them difficult to consider within a precise cost-benefit framework. Nevertheless, in a qualitative sense, the existence of positive spillovers for business

³¹ See, for example, Aronsson et al. (2000), Hemp (2004), Scheil-Adlung and Sandner (2010), and Smith (2016).

³² Hill (2013) finds a significant impact of paid sick leave in reducing job separation.

³³ In many service sector settings the health of customers is also jeopardized by absence of paid sick leave protection for the workers they interact with.

³⁴ See, for example, Piper et al. (2017), Asfaw et al. (2017), and Stearns and White (2017).

from the provision of paid sick days must be acknowledged and considered in policy decisions. Given the modest gross costs of paid sick leave, demonstrated above, these significant offsetting benefits could ultimately reduce the net costs to employers to zero, or even generate net benefits to employers. The existence of these offsetting benefits is consistent with the finding of numerous studies that the realized bottom-line impact of paid sick days on recorded profitability is negligible.³⁵ Those studies also confirmed that the gross cost of these policies is modest, and largely offset by countervailing benefits to employers.

³⁵ Research from other countries has indicated that the gross incremental cost of the expansion of required sick leave is under 1% of total business costs: see, for examples, Applebaum et al. (2016), Milli et al. (2016), Drago and Lovell (2021), and New Zealand Ministry of Business, Innovation and Employment (2020).

Conclusion

This report has provided estimates of the gross cost to employers of a policy requiring the provision of up to 10 days of paid sick leave to workers in B.C. For several reasons, the ultimate impact of this policy on bottom-line business costs is anticipated to be very small: many workers will not be entitled to the full 10 days, many workers already receive this benefit, many available paid sick days will not be claimed, many workers will not be replaced when they are away sick, and compensation costs make up a small share of total operating expenses in most industries. On a bottom-line basis, these gross costs are estimated to equal around 0.2% of total business costs – too small to be even measured in most cases. Sensitivity analysis indicates that even under “worst-case” assumptions about sick day utilization and other parameters, these costs remain very small. And even these modest gross costs will be offset (potentially in full) by benefits accruing to employers from a healthier, more stable, and more productive workforce – and flow-on improvements in brand reputation and business conditions.

When COVID-19 hit, Canada was a laggard among industrial countries in requiring paid sick leave benefits for workers. Indeed, in B.C.’s case, there was no requirement for paid sick leave at all in provincial labour legislation and regulation. Temporary pandemic policies provided up to 3 days coverage, subsidized by the provincial government. But public health orders make it clear that this is inadequate: for many illnesses, workers need to stay away from work for two weeks (or even longer) to protect themselves, their colleagues, and their customers or clients. The experience of COVID-19 has confirmed that 10 days paid sick pay is the bare minimum for protecting public health; many industrial countries provide more.

After the catastrophic economic and human consequences of this pandemic, it would be short-sighted folly to contemplate returning to a situation in which workers are compelled by financial necessity to keep working when they should stay home – for the good of themselves, their colleagues, and their community. This analysis confirms that providing this basic protection is entirely feasible in economic terms. And it is utterly essential in moral terms.

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