Paid Sick Leave Mandates and Household Portfolio Choice

Yibing Wang [1] Steven Ongena [2] Duc Duy (Louis) Nguyen [3] Tarik Driouchi [1]

[1]King's College London [2]University of Zurich, Swiss Finance Institute, KU Leuven, NTNU Business School, and CEPR [3]Durham University

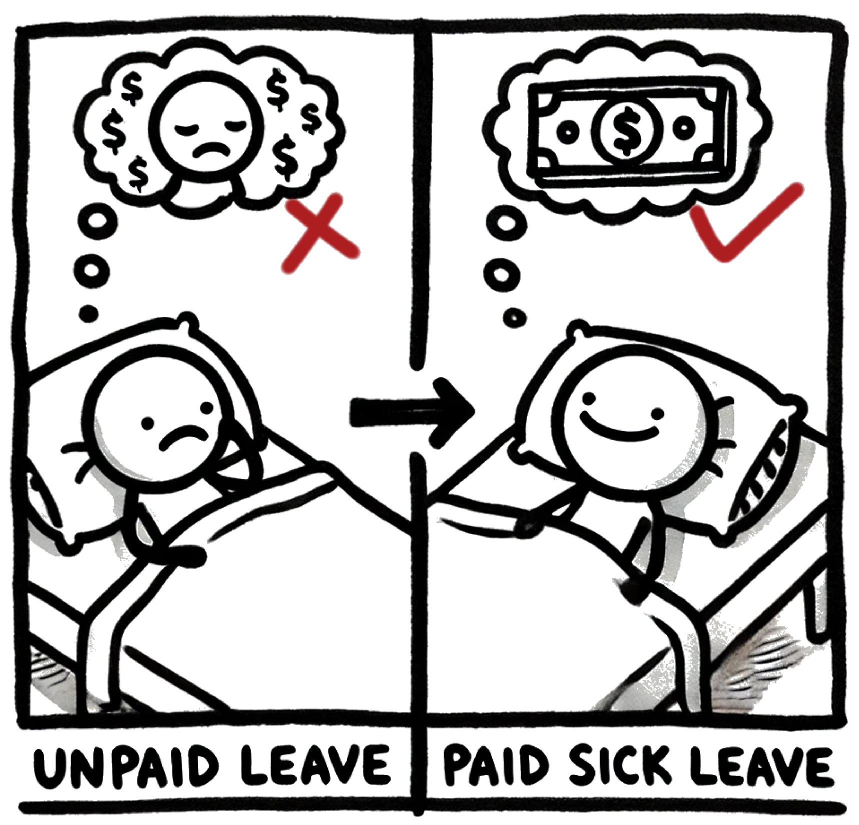
Abstract

Using the staggered adoption of paid sick leave (PSL) mandates across US states, we document a 20% increase in the average household stock market participation following the enactment of a PSL policy. The effects are more pronounced among households facing greater health concerns, higher employment risks, and financially vulnerable households. Several mechanisms can explain our findings. PSL mandates offer households insurance-like protection, increase their income and wealth, and improve households' future outlook. Our findings demonstrate that PSL laws create positive economic externalities by motivating households to invest in risky assets, a key factor toward building wealth.

An Important Question

- The US is one of a few wealthy nations that does **NOT** provide a federal PSL mandate
- US Employees on average miss out **14** days of work each year due to illness
- **1 in 4** workers reports losing their job for taking time off due to illness

- Without PSL, workers taking sick leave not only lose wages but may also face the risk of job termination
- With PSL, employees can secure income stability and job security while accessing timely medical care and reducing higher medical costs caused by delayed treatment



Institutional Background

- In response, several US states and localities have enacted legislations requiring firms to provide minimum levels of PSL (e.g., CT, CA, MA, OR, VT, AZ, WA, MD, RI, NJ, MI)

Conceptual Framework

- The increase in **background risk** reduces the optimal financial risk that a household is willing to bear (e.g., Gollier and Pratt, 1996)
- PSL benefits could reduce multiple sources of a household's background risk, including income risk, health risk, medical expenditure risk, and job security risk

Data and Methodology

Data: Panel Study of Income Dynamics (PSID)

Staggered adoption of PSL mandates on household stock market participation

$$Y_{ict} = \beta \times PSL_{ct} + X_{it} + \delta_i + \gamma_c + \eta_t + safety\ nets + \epsilon_{ict}$$

- Main dependent variable: a dummy variable that equals one if the household participates in the stock market
- Household demographic and financial characteristics (e.g., age, edu, health, family size, wealth, etc.)
- Household FEs, time FEs, and county FEs (confidential version of PSID)
- Other public safety nets: Affordable Care Act, Paid Family Leave, UI

Baseline Results

Households are 3.8% (20% relative to mean) more likely to participate in the stock market following the adoption of PSL mandates

Dependent variable:	*Household stock market participation*
PSL	0.0383*** (0.0134)
Time & Household & County FE	Yes
N	20,998
R2	0.698

Highlights

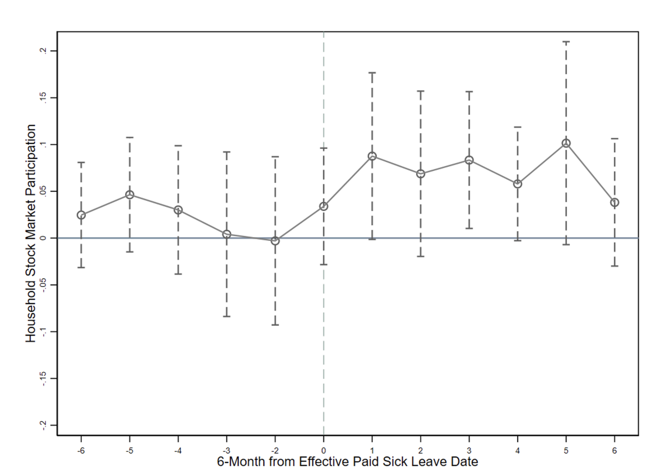
We document an increase in household stock market participation following the enactment of a PSL policy

Economic mechanisms

- Insurance-like protection
- Improvement of subjective expectations
- Household wealth

Validity

1. **Economic and political conditions**: Prior economic and political conditions do not drive the adoption of PSL mandates
2. **Moral hazard**: Households' average number of sick days increase (but no increase in vacation days)
3. **Household awareness**: Internet search interest for the term "paid sick leave" peaks around a state's PSL enactment in Google Trends
4. Placebo tests & robustness tests & heterogeneous treatment effect
5. Parallel trend



Channel: Insurance-like Protection

Vulnerable Households

- The effect of PSL mandates on stock holdings is more pronounced for: (i) households with significant health concerns, (ii) households facing job security concerns, and (iii) households vulnerable to wealth shocks

Dependent variables: Household stock market participation	
Households with health concerns	
*(1) PSL * Poor health*	0.0415** (0.0208)
*(2) PSL * Declining health*	0.0622* (0.0355)
Households facing job security concerns	
*(3) PSL * Re-enter workforce*	0.0708** (0.0354)
*(4) PSL * (Mass layoff/Employment)*	0.1049* (0.0614)
Households vulnerable to wealth shocks	
*(5) PSL * Vulnerable households*	0.0562* (0.0328)

Precautionary motives

- Households adjust their portfolios by shifting from safer to riskier financial assets following the PSL mandates

Dependent variable:	*Risky asset/Safe asset*
PSL	0.0648** (0.0299)
N	19,722
R2	0.626

Channel: Subjective Expectations

Following the PSL, household heads with health concerns:

1. are more likely to extend their planned retirement age
2. are less likely to experience a decline in life satisfaction

Dependent variables:	Plan to work for longer	Decline in life satisfaction
	(1)	(2)
(1) PSL * Poor health	0.1707** (0.0848)	-0.0112* (0.0065)
(2) PSL * Declining health	0.4199*** (0.1104)	-0.0151** (0.0063)

Channel: Household Wealth

- Following the PSL, households experience an increase in income and non-housing wealth, and use some of the gains in non-housing wealth to invest in the stock market.

Dependent var.:	Ln (Income)	Ln (Non-housing wealth)	Ln (Housing wealth)
	(1)	(2)	(3)
PSL	0.010** (0.005)	0.009* (0.005)	0.020 (0.021)
Dependent variable:	Household stock market participation		
*PSL * Income growth*	-0.116 (0.094)		
*PSL * NH wealth gth.*		0.296*** (0.108)	
*PSL * H wealth gth.*			-0.005 (0.004)

Full paper

yibing.wang@kcl.ac.uk