Paid Family and Medical Leave Insurance Testimony

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The Vermont Chamber represents businesses of all sizes, in all industries, in every corner of Vermont. We understand what it takes to help businesses grow and thrive to build strong and vibrant communities, and our members have trusted us to center stewardship in our mission of advancing the Vermont economy. It is because of this mission that we appreciate the opportunity to weigh in on the Paid Family and Medical Leave Insurance Program proposed in H.66.

Vermont businesses, nonprofit organizations, and government entities are facing uncertainty as the economy continues to show signs of distress. Emerging from the pandemic, employers are now contending with:

- 7% inflation
- Supply chain disruption costs averaging $228 million per year
- A historic workforce shortage
- 21% wage growth in Vermont since 2019
- Falling consumer consumption
- Ongoing Federal Reserve interest rate hikes

In addition to these factors, which are largely outside of the state legislature's jurisdiction, additional issues are making Vermont a high-cost state for employers. Concerns include unemployment insurance, development costs, taxes, health insurance premiums, energy costs, and now the potential for significantly increased taxes that further build the state's social safety net through childcare, health care, and paid leave.

With the understanding of the current economic realities facing Vermont business owners, there are considerations that we'd ask the committee to review when the Paid Family and Medical Leave Insurance Program.

According to Vermont Department of Labor (VDOL) data, about **18,500** private employers are covering about **23,500** employees (**9.5%** of the total private employment) with **4** or fewer employees. The total wages for this group amount to about **$1.73** billion annually. VDOL has determined that roughly **92%** of employers have **fewer than 20** employees and those businesses are responsible for about **30%** of the private jobs in the state and pay about **30%** of the private sector wages. In a state like Vermont, with a blend of both rural and urban economies, small businesses and entrepreneurship sustain much of what we have to offer in terms of our employment opportunities and community amenities.

In a small business, mandated leave programs significantly impact productivity and operations. One employee on family leave would require the average-sized Vermont Chamber member to operate without 20% of their total workforce for a quarter of the year. As we continue to deal with a significant workforce shortage and given the time and resources required to hire and train talent, the alternative of hiring a temporary replacement worker is a difficult, costly, and in many cases ineffective remedy. A payroll tax to employers, on top of the considerable cost involved in the loss of an employee for 12 weeks, would be an economically difficult imposition on many Vermont employers As goes the success of small businesses, so often goes the success of our communities. The strain that this proposal will place on their success is worrisome.

Additional considerations need to be given to Vermont's position in the national economy. Many of the state's anchor employers operate in multiple states and cannot implement a benefit program for one segment of its workforce without offering the same benefit to all employees. Creating a program that is an outlier in size, scope, and cost to other states puts Vermont at a competitive disadvantage.

For the reasons stated, the Vermont Chamber is concerned with the adoption of a new employer mandate for paid family and medical leave at this scale. While we support the principles of a paid leave benefit, it is important that the structure of the program be sustainable. The immediate benefits to employees must be carefully balanced with the overall costs of the program and mitigate the potential long-term negative impact on job growth and retention.

In creating an expansive new mandate such as this there are advantages to starting on a smaller scale and growing over time as can be seen in state investments in other social benefits such as childcare. Programs can be expanded after they have been launched but it is much more challenging to scale benefits back if they are found to be unsustainable.

If the legislature elects to move forward with this proposal, we offer the following suggestions:

- Reinstate provisions from the 2019 proposal that removed employers from mandatory increased tax obligations.
- Reduce the size of the benefit to better align with paid family and medical leave programs across the nation.
- Understand the true costs to establish this program if it is established through State Agencies vs. with a private insurer.
- Fully understand the relationship between short-term disability insurance programs offered as a standard benefit throughout many businesses and this new program.
- Further define what is allowable in the definition of a family member by the term "personal bond" so it does not leave room for confusion or exploitation.
- Review the make-up of the of wage earners earning less than $25,000 annually in wages to understand what percentage of this group may have income from other sources that is not related to wages.

- Clarify if this benefit is available to self-employed individuals and wage earners that are nonresidents of Vermont.

In conclusion, we encourage you to fully understand all the economic pressures on businesses, including those that are not in your control as well as the breadth of proposals being discussed throughout the Legislature that could add additional pressures and costs onto businesses. We all want to ensure that businesses, people and communities thrive so they can keep providing opportunity and growth.