Modeling a Program of Family and Medical Leave Insurance

House Ways & Means Committee

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Decisions Involved in Setting Up a Program of FMLI

- What types of leave?
- Who is eligible for benefits?
- What are the parameters in the benefit formula?
- How much do administrative services cost?
- How is program revenue raised?

Types of Leave

- Own serious health condition
- Family member's serious health condition
- New baby/adoption/foster care
- Military families
- Safe leave
- Bereavement leave

➔ How many people will take each type of leave?

➔ How many weeks per type of leave?

Benefit eligibility

- Must have contributed to the program
  - Earned wages from which contributions were withheld in 2 of the last 4 quarters
  - Any amount of wages in each quarter is sufficient
- Include self-employed individuals or not
  - If include, voluntary or mandatory
  - If opt in, for what period of time
  - How to re-up enrollment

Parameters in the benefit formula

- Reimbursement rate, or what % of weekly wages would be paid out
- Maximum weekly benefit
- Waiting period, if any
- Length of various benefit leaves
- Maximum total number of weeks taken per year
- Minimum number of leave hours taken
- Intermittent vs. continuous leave

➔ Expected cost of benefits

Parameters currently in H.66

Parameters	**H.66 Parameters**
Types of Leave Covered	Own serious health condition, maternity/parental, family care, safe, and bereavement
Length of Leave Cap	12 weeks (2 of which can be bereavement)
Maximum Weekly Benefit	Vermont Average Weekly Wage ($1,135 in 2022)
Wage Replacement Rate	100%
Waiting Period	None; Applications must be reviewed and decided upon within 5 days

Administrative costs

- One-time costs as well as on-going costs
  - One-time costs include software development, IT hardware, start-up personnel, rule-making, establishing a FMLI Special Fund
    - H.66: responsibilities split among VT Dept of Taxes, Finance and Management, and Treasurer's Office
  - On-going costs include personnel and IT upkeep for benefit eligibility and payout, appeals, revenue collection, etc.
- Operation generally requires 12 months' expected benefit costs plus administrative costs in the Special Fund
- In addition, prudence generally requires a reserve fund
  - H.66: 9 months of projected benefit payments and administrative costs

Collecting program revenue

- Type of tax or contribution used to raise revenue
  - H.66: Payroll tax on wages
- Who pays the tax or contribution
  - H.66: Employers pay at least half the payroll tax
  - Employers withhold employees' contributions like income tax withholding
  - If self-employed individuals opt in, they pay the full amount of payroll tax in quarterly estimated tax payments

Tax base

- Contributions to be levied on Vermont wages, cap and/or floor
- Wages up to twice the Social Security taxable maximum amount are subject to the payroll tax
  - Up to $294,000 in 2022; up to $320,400 in 2023
    - Indexed to average weekly wages in the U.S. economy
- House General bill does not exempt individuals with combined wages less than $25,000
  - Could collect contribution throughout the year, then refund through tax filing
- Number of taxpayers with nonzero capped and floored wages
  - About 244,400 in 2022
- H.66: Employers can opt out if they have an equivalent or better plan

Estimating FMLI leaves and their cost

- JFO previously used model results through the Institute for Women's Policy Research (IWPR)
  - That model was also the basis for the 2016 Paid Family Leave report
- The U.S. Department of Labor hired IWPR and IMPAQ to make the model accessible to the public
  - JFO is using that publicly available model to model the expected leaves and expected benefit costs
  - Expected leave comes from Rhode Island
  - We currently assume on-going administrative costs of 7.5% of benefit cost
  - JFO does not yet have specific start-up costs
  - JFO needs more information to look at monthly cash flow

Estimated Costs of Benefits and Funding

Number of Leaves Taken and Receiving Program Benefits	
Own Health Condition	8,321
Maternity/Parental	6,892
Family Care	729
Safe Leave	3,523
Bereavement	5,832
Average Weekly Benefit	$545.32
Benefit Cost ($ Millions)	$79.5
Own Health Condition	$47.2
Maternity/Parental	$21.3
Family Care	$2.4
Safe Leave	$4.4
Bereavement	$4.3
Administrative Cost (7.5%, $ Millions)	$6.0
Total Cost ($ Millions)	$85.5
Estimated Total Premium	
Cost as a Percent of Earnings up to 2x the Social Security Max	0.55%

Notes: JFO has revised the payroll tax rate as we are refining the modeling. Program costs and tax rate are still preliminary.
0.55% would raise $91.5 million because the exemption for those earning under $25,000 was removed.

Considerations

- Wage replacement is currently 100%
  - But employees would not pay Social Security or Medicare payroll taxes on their PFML benefits
    - Social Security payroll tax rate is 6.2% for employees; 12.4% for self-employed
    - Medicare payroll tax rate is 1.45% for employees; 2.9% for self-employed
- Reserve fund is currently 9 months of benefits and administrative costs
  - Some states require 6 months in the reserve fund
- Self-employed are currently counted in taking leaves, but their contributions based on SE net income are not yet included
- Funds needed when benefits begin are currently underfunded
  - Payroll tax contributions for 15 months prior to benefit availability would provide about $114 million assuming the rate is 0.55%
  - When benefits begin, need about $150 million in the Special Fund to cover 12 months of benefits plus the reserve fund

Considerations, continued

- The transfer from the General Fund to the Special Fund needs to be increased
  - IT alone likely to exceed $20 million
    - U.S. DOL overview report shows start-up costs of $82 mil in WA, $47 mil in CO; CT uses third-party administrator
  - Multiple new positions needed in Division of Family and Medical Leave, Department of Taxes
- The transfer from the General Fund is now designated as an advance payment from the State for its employer contributions
  - Department of Human Resources estimates State-as-employer contributions at half of 0.55% would be about $1.9 million in FY23; State would not make employer contributions for about 10 years until the accumulated State employer contributions surpass $20 million
  - About 40 percent of State employee costs come from the General Fund; many State employees are funded through the designated funds, such as the Transportation Fund, or through federal government transfers and grants
  - If the State is not required to pay the employer share of PFML contributions for 10 years or so, the State could be leaving money on the table because it will not charge those other Funds or federal funding sources for the PFML employer contribution
- Simpler to designate one-time money for startup costs with no advance payment

Thank you!