Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

Fiscal Note

Date: May 2, 2018 Prepared by: Joyce Manchester

H.196—An Act Relating to Paid Family Leave

As passed by the Senate Economic Development Committee on April 26, 2018

1. Overview of Proposed Bill

- Establish a Family Leave Insurance Program in the Department of Labor and Department of Taxes to provide employees with 6 weeks of paid family leave to care for a family member with a serious illness and 12 weeks per family for parental and bonding leave, funded by payroll taxes on employees
- Bill effective July 1, 2018
- Taxes begin July 1, 2019
 - 0.136% payroll tax to cover approximately \$16.3 million in benefits and estimated IT and administrative costs
- Benefits begin October 1, 2020

2. Impact on State Budget and State Employees

A. For State Employees

- Costs associated with replacing State workers who take longer leaves or additional leaves, and costs associated with leaves for temporary workers who would become eligible; average leave taken in FY16 was 4.6 weeks
 - FY21: range for additional leave is \$0.1 million to \$3.1 million; ~\$1.6 million if average additional leave taken is about 3 weeks (applies to 9 months in FY21)
 - The range is affected by use of the existing State plan, any additional leave taken under the new plan, and the need to replace the worker
- The State has the option to pay some or all of the payroll tax on wages of State personnel
 - Employees pay ~\$0.82 million in FY20, ~\$0.85 million in FY21 (0.136% of payroll)
- Proportional allotment by fund based on FY17 (Global Commitment and Federal Funds may be capped, creating more pressure on State funds)
 - General fund: 34.4%
 - Global Commitment: 10.2%
 - Other State funds: 36.3%
 - Federal Funds: 19.1%

B. For School Employees

- The cost of replacing education workers who take longer leaves is not available
- The employer has the option to pay some or all of the payroll tax on wages of school personnel
 - Employees pay ~\$1.30 million in FY20, ~\$1.34 million in FY21 (0.136% of payroll), based on FY16 payroll data moved forward

C. Administrative Costs

• The 2016 Feasibility Study done for the Vermont Commission on Women assumes administrative costs of 7.5 percent of benefits paid, or about \$1.2 million; using a basic IT system and additional personnel to process claims increases those costs to about 8 percent of benefits paid, or about \$1.3 million in FY2021

D. Reserves and Trust Fund Balance

- The bill calls for reserves to equal at least nine months, or 75 percent, of the projected benefit payments for the next fiscal year
- The Trust Fund Balance would be dropping in the 4th and 5th years of the program
- See Cash Flow for Paid Family Leave attached to this document

3. Management Issues

- Estimated cost of Paid Family Leave IT system is about \$500,000 for a basic IT system developed by the Department of Taxes that collects revenues and pays benefits, with a wide band of uncertainty¹
- Modification of the State's Unemployment Insurance IT system now being developed with 100 percent federal funds would be highly difficult

4. Tax Rate Mechanism

• The legislature sets the tax rate annually

5. Comparison to Systems in Other States and Jurisdictions

- Vermont's proposed system is similar to those in 6 states
 - 70% wage replacement up to ~\$1,042 per week; other states range from 55% to 90%
 - Up to 12 weeks for parental and bonding care and up to 6 weeks for family care; other states offer 4 to 12 weeks
- See Table for state comparisons

6. Risk Factors that Arise from the Study

- Will employee take-up rates rise initially due to pent-up demand? Will they rise over time? Study assumed ~33% take-up of state paid leave benefits
- How will employers respond over time?
 - Incentive to encourage use of Paid Family Leave rather than employer benefits
 - Incentive to drop employer benefits over time

7. Economic effects

- Costs of replacing personnel would accrue statewide, not just to State of Vermont personnel
- Incidence of payroll tax falls on employee even if employer pays part, meaning that wages could be affected

¹ If IT development were done by an outside vendor, the cost could be \$2 million rather than \$500,000. In that case, the payroll tax rate is estimated to be 0.140%.

Notes: Some of the results here are based on the IMPAQ study completed in 2016 for the Vermont Commission on Women, "Vermont Paid Family and Medical Leave Feasibility Study: Final Report," December 15, 2016; available at

http://women.vermont.gov/sites/women/files/pdf/VT%20PFML%20Study_Final%20Report__FINAL_V3.pdf.

Updated results for the program benefits in the bill as passed by the Ways & Means Committee in April 2017 are available at

http://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Ways%20and%2 0Means/Bills/H.196/W~Joyce%20Manchester~H.196%20Cost%20Estimates%20for%20PFL%2 0in%20VT~4-20-2017.pdf and also

 $\frac{\text{http://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House\%20Ways\%20and\%2}{0Means/Bills/H.196/W\sim Joyce\%20Manchester\sim H.196\%20FML,\%206\%20weeks,\%20\$150,000\%20cap\sim 4-20-2017.pdf}$

The most recent modeling for a not-quite-final version of the bill as passed by the Senate Economic Development Committee was conducted in early April, 2018.

A memo by Daniel Smith, IT Consultant for JFO, regarding the cost of an IT system for the paid family leave program is available at

 $\frac{https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/Senate\%20Economic\%20D}{evelopment/Bills/H.196/H.196\sim Joyce\%20Manchester\sim Memo\sim 4-19-2018.pdf}.$

					JFO/jm; 5/2/18
Cash Flow for Paid Family Leave					-
Assumptions/Parameters	Total IT Devel Cost	Pyrl Tax Rate, Yr 2+	Int rate on Treas funds		
IT: Collect contributions, pay out benefits	\$500,000	0.136%	2.00%		
	Start System 7/1/18	Start Taxes 7/1/19	Start Benefits 10/1/20		
	One year start-up	No ben's in FY2020	Fully operating in Oct.	Fully operating	Fully operating
	FY2019	FY2020	FY2021	FY2022	FY2023
TOTAL REVENUE	\$0			\$16,905,851	\$17,085,541
Contributions from payroll tax	\$0		\$16,608,703	\$16,808,007	\$17,009,703
Interest on fund balance	\$0	-\$17,033	\$95,925	\$97,844	\$75,838
TOTAL COSTS (ben, IT, admin, addn to reserves	\$851,663	\$10,729,797	\$16,704,612	\$18,103,976	\$18,556,575
Benefits paid (grow 2.5%)			\$12,223,125	\$16,704,938	\$17,122,561
IT product development	\$333,500	\$166,500			
Admin at 8.0% of benefits paid (year 3+),	\$518,163	\$544,291	\$1,303,474	\$1,336,395	\$1,369,805
50% of Study personnel costs, yrs 1&2					
Pay off negative fund balance		\$851,663			
Needed additions to reserves		\$9,167,344	\$3,178,013	\$62,644	\$64,210
Reserves required: 75% at t+1	\$0	\$9,167,344	\$12,528,703	\$12,841,921	\$13,162,969
Reserve balance carried forward		\$0	\$9,167,344	\$12,528,703	\$12,841,921
Interest earned on reserves	\$0	\$0	\$183,347	\$250,574	\$256,838
Reserve balance as of start of year			\$9,350,691	\$12,779,277	\$13,098,759
FUND BALANCE	-\$851,663	\$4,796,236	\$4,892,176	\$3,791,894	\$2,396,698

able: Compariso	on of Paid Family Leav	e Plans in Sever	n States					JFO/jm; May 2, 2018
		Ongoing programs				Enacted, not	Proposed	
		California	New Jersey	Rhode Island	New York	Washington	Washington, DC	Vermont (proposed)
Status	Enacted	2002	2008	2013	2016	2017	2017	
	Effective	2004	2009	2014	2018	Jan. 2020	July 2020	July 1, 2018;
								Tax begins July 1, 2019
								Ben's begin Oct 1, 202
Reasons and	Family care	6	6	4	8 in 2018, 10 in 2019,	12	6	6
	Birth, adoption, foster	6	6	4	and 12 in 2021	12 (14 preg)	8	12 per family
Duration (wks)	Own disability (year							
	established TDI*)	52 (1946)	26 (1948)	30 (1942)	26 (1949)	12	2	
						Max 16 wks	6 family care leave;	May 42 also in 42
	Maximum, if any			Max combined=30		combined; (18 if ser	8 parental leave;	Max 12 weeks in 12
		İ				ill from preg)	2 own health	months
	Child	Х	Х	Х	Х	Х	Х	Х
	Parent	Х	Х	Х	Х	Х	Х	Х
	Spouse	Х	Х	Х	Х	Х	Х	Х
Definition of	Domestic partner	Х	X, civ unn partner	Х	Х	Х	Х	Х
Family Member	Grandparent	Х		Х	Х	Х	Х	
,	Grandchild	Х			Х	Х		
	Sibling	Х				Х	Х	
	Parent-in-law	Х				Х		Х
Eligibility				Covered	Family care: With			
		\$300 in wages in base period	covered in NJ	employment in RI	current employer at	Worked 820 hours	Worked at least	Earned at least \$10,71
				of at least \$11,520	least 26 consecutive	during qualifying	50% time with DC	in Vermont during the
		·	with >= \$168/wk	in base year	weeks	period (4 qrtrs)	employer	last 12 months
				OR earned at least			AND:	
			OR earned at least	\$1,920 in a quarter	Own care: With current		AND in covered	
			\$8,400 in base	and \$3,840 or more	employer at least 4		employment for at	
			year	in base year	consecutive weeks		least 52 weeks	
			0.1% to 0.75% on			0.145% taxable		
Funding	Employer pays		1st \$32,600		0.5% up to \$0.60/wk	wages (year 1)****	0.62%	optional
	F 272 F 272					0 1, ,		
		0.90%	0.28% on 1st	1.2% on 1st \$66,300	0.5% up to \$0.60/wk; all	0.255% taxable wgs		0.136% up to \$150,000
	Employee pays		\$32,600	, ,	family care costs	(year 1)****		
Benefit amount					Fam care: 50% avg wkly	90% of AWW if earn	If < 150% of DC min	
	Per week 60% or 70% own wages**	60% or 70%		4.62% of qtrly	wage, not to exceed	<= 50% of statewide	wg * 40, 90% ; If	The lesser of 70% of
					50% of state AWW; for	AWW; if more, 90%	0 , ,	own avg wkly wage o
		66% own wages	wages (about 60 %	•	up to 50% statewide	J	twice the livable wag	
		Own wages		of avg wkly wages)	weekly wage, max	AWW, 50% of	wg * 40 + 50% of	if 40 hrs/wk (\$1,042.4
					\$170/wk***	excess	own excess wkly wg	in 2016)
		44.2457.1	4504 1	6004 1	\$1/U/WK***		, ,	
	Maximum	\$1,216/wk	\$681/wk	\$831/wk		\$1,000/wk^	\$1,000/wk	\$1,042.40/wk

Table, continued		California	New Jersey	Rhode Island	New York	Washington	Washington, DC	Vermont (proposed)
Employer type	Private	All	All if UE Comp	All	Most	All	All in UE Comp	All
	Public	Some	All if UE Comp	Some	Some	All	Not	All
	Self-employed	Opt in	All if UE Comp		Opt in	Opt in	Opt in	
Waiting period		None	7 days (paid if receive benefits for >= 3 wks)	None; must be out of work for 7 days	Family care: none; Out of work 7 consec. days	1 week, but none for bonding care	1 week, only once per year	Notice to employer as soon as practicable
]			for >= 3 wks)	of work for 7 days	of work / consec. days	for bonding care	per year	soon as practicable

^{*}TDI is Temporary Disability Insurance for short-term disability

The employer is responsible for 55% of the medical leave premium and the employee is responsible for 45% of the medical leave premium and all of the family leave premium.

^ WA will adjust annually the maximum weekly benefit to 90% of the statewide AWW

For more detail, see http://www.nationalpartnership.org/research-library/work-family/paid-leave/state-paid-family-leave-laws.pdf

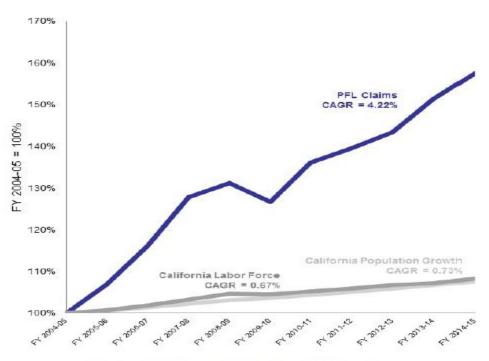
^{**}CA beginning in 2018: If quarterly earnings >= \$929 but < 1/3 state average quarterly wage, the weekly benefit rate will be the maximum of 23.3% of state average weekly wage or **60**% of the worker's weekly wage; if quarterly earnings <\$929, weekly benefit = \$50; the maximum benefit is adjusted annually based on the statewide average weekly wage

^{***}New York benefit rate rises to **55%** of the worker's weekly wage up to 55% of the state AWW; in 2020, **60%**; and in 2021, **67%** (increases subject to delay); for disability benefit, if imployee earns < \$20 per week, the benefit is their full average weekly wage

^{****} In year 1, the initial premium for Washington is set as .4% of wages. The medical leave premium is 2/3 of that rate and the family leave premium is 1/3.

Appendix I: Evaluation of California's Paid Family Leave Program after 10 Years (2015): Claims for Family Care

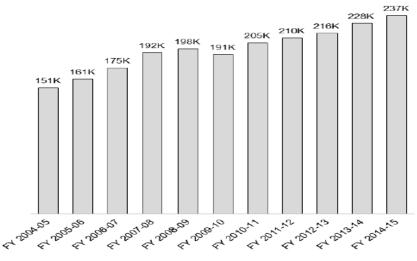
Figure 4.3 PFL Claims (2004-2014)



Source: EDD and Department of Finance

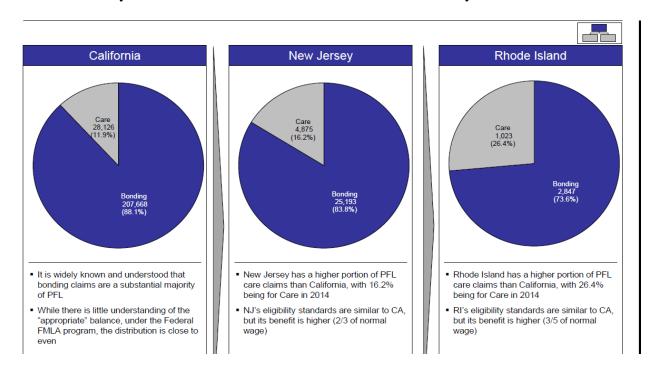
Source: Paid Family Leave Market Research (Main Report and Appendix), July 13, 2015; Employment Development Department, State of California.

Figure 4.2 PFL Claims (2004-2015)



Source: EDD

Paid Family Leave bonding claims (for birth, adoption, or foster care) are much more common than Paid Family Leave care claims in all three states with Paid Family Leave



Appendix II: New Jersey Growth in Claims for Family Care Only

