

Paid Family Leave: Administrative Costs

The Feasibility Study (2016) for the Vermont Commission on Women estimated administrative costs for a Paid Family and Medical Leave program to be 7.5 percent of total benefits. The study estimated the cost for benefits (12 weeks of leave, 100 percent of wages up to twice the livable wage) to be \$73.8 million per year. Administrative costs would therefore be \$5.5 million.

From the Feasibility Study for the Vermont Commission on Women:

The Vermont Study Committee report (2014) suggested 7.5 percent of benefits paid for administrative costs. That percentage is more than Rhode Island reports spending to administer its Temporary Disability Insurance and Temporary Caregiver Insurance programs for Family and Medical Leave Insurance and more than Washington State's 5.2 percent negotiated rate for Unemployment Insurance.

From the Vermont Study Committee report:

Administration: The Committee recommends that administration of the program be handled by the Department of Labor since we believe the administration will most closely resemble administration of unemployment benefits. Payments into the fund will cover the costs of administration as well as payments to eligible employees. The Department estimates that the costs of administration will be approximately 7.5% of the annual payments into the fund. The Department is responsible for developing and conducting an outreach program and for annual reporting on the utilization to the Legislature for the first five years and thereafter when proposing an adjustment to the contribution rate.

Administration of a Paid Family Leave Program will require the following:

- Establishment of a fund
- Collection of a contribution, presumably on a quarterly basis
- Application intake and initial screening to determine eligibility
- Determination of weekly benefit amount, based on wage history
- Processing weekly claims and issuing weekly benefit checks
- Monitoring and oversight to detect fraud or overpayment
- Adjudication of disputed claims, internal review, and administrative appeal process to a program hearing officer
- Employer auditing and collection of unpaid contributions

The administration of this program within the Department of Labor will require the creation of a new division. The Committee found it helpful to look at Rhode Island's Temporary Disability and Temporary Caregiver Insurance Program. Of the three states with similar programs, Rhode Island's labor force is the closest in size to Vermont's, with approximately 550,000 individuals, compared to Vermont's labor force of approximately 350,000.¹⁹ Rhode Island's program is staffed with 50 positions. It is estimated that Vermont's program will need 20 FTE positions to administer the program.

The Department will be responsible for developing and conducting an outreach program to employers and employees, and for annual reporting on the utilization to the Legislature for the first five years and thereafter when proposing an adjustment to the tax rate.

The Department should have rulemaking authority to address elements of the program in greater detail than is included in any statutory provisions. For example, rules will be needed for creating the fund, for directing employers to deduct contributions from wages and to forward them to the fund, for appeals from the determination of base benefits, and for fraud prevention. Eventually, rulemaking or a statutory amendment will be required to proceed with extending benefits to self-employed persons.

Sources

Vermont Commission on Women, *Vermont Paid Family and Medical Leave Feasibility Study: Final Report*, IMPAQ International, December 14, 2016. Available at http://women.vermont.gov/sites/women/files/pdf/VT%20PFML%20Study_Final%20Report_FINAL_V3.pdf.

Report of the Study Committee on Employee-Funded Paid Family Leave, January 15, 2014. Available at <http://www.leg.state.vt.us/reports/2014ExternalReports/296055.pdf>

Other notes

Rhode Island Temporary Disability Insurance/Temporary Caregiver Insurance

1. Administrative costs

From 2005 through 2014, administrative costs for the TDI (only) program in Rhode Island equaled 4.6 percent of the benefits paid out. <http://www.providencejournal.com/article/20150422/opinion/150429824>

In 2016, expenditures on TDI (including TCI) were \$185,552,379

In 2016 expenditures on personnel and operating supplies were \$12,339,787 or ~6.7% of benefits paid out

2. Tax treatment of benefits and payroll tax

Temporary Disability Insurance (TDI) benefits *are not* subject to Federal or State income taxes; therefore, you will **not receive** a G-1099 form from TDI.

Temporary Caregiver Insurance (TCI) benefits are subject to Federal and State income taxes. If you receive TCI benefits, you will receive a General Form (G-1099) in January of the year following the year in which you were paid TCI benefits indicating the amount you received. This amount will also be reported to the IRS.

Funded by employee payroll tax of 1.2% on first \$66,300, deductible for income tax purposes