

# Vermont Legislative Joint Fiscal Office

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## *Fiscal Note*

Date: April 24, 2017

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### **H.196—An Act Relating to Paid Family Leave**

As passed by the House Ways & Means Committee on April 20, 2017

#### 1. Overview of Proposed Bill

- Establish a Family Leave Insurance Program in the Department of Labor to provide employees with 6 weeks of paid family leave, funded by payroll taxes on employees
- Bill effective July 1, 2017
- Taxes begin July 1, 2018
  - 0.141% payroll tax to cover approximately \$15.9 million in benefits and \$1.2 million in administrative costs for the first 12 months after benefits begin
- Benefits begin July 1, 2019

#### 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
  - FY20: range is \$0.1 million to \$4.0 million; ~\$2.1 million if average additional leave taken is about 3 weeks
  - The range is affected by use of the employer's plan, any additional leave taken under the new plan, and the need to replace the worker
- Employer has the option to pay some or all of the payroll tax on wages of State personnel
  - Employees pay ~\$0.83 million in FY19, ~\$0.85 million in FY20 (0.141% 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 ~\$1.35 million in FY19, ~\$1.38 million in FY20 (0.141% of payroll)

##### C. Administrative Costs

- The 2016 Feasibility Study done for the Vermont Commission on Women assumes administrative costs of 7.5 percent of benefits, or about \$1.2 million

### 3. Department of Labor Management Issues

- Estimated cost of DOL IT system ~\$2.5 million (the Study's estimate), with 2 years' inflation
- Need further testimony on how new IT system would interface with DOL's current IT setup and time needed to implement IT changes
- Need to look at timing of start-up costs for system and benefits relative to revenue flow
- Need to examine size of reserves relative to benefits paid out

### 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
  - 80% wage replacement up to ~\$1,042 per week; other states range from 55% to 90%
  - 6 weeks for family care; other states offer 4 to 8 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

Note: Some of the results here are based on the IMPAQ study completed last fall 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](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 are available at

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

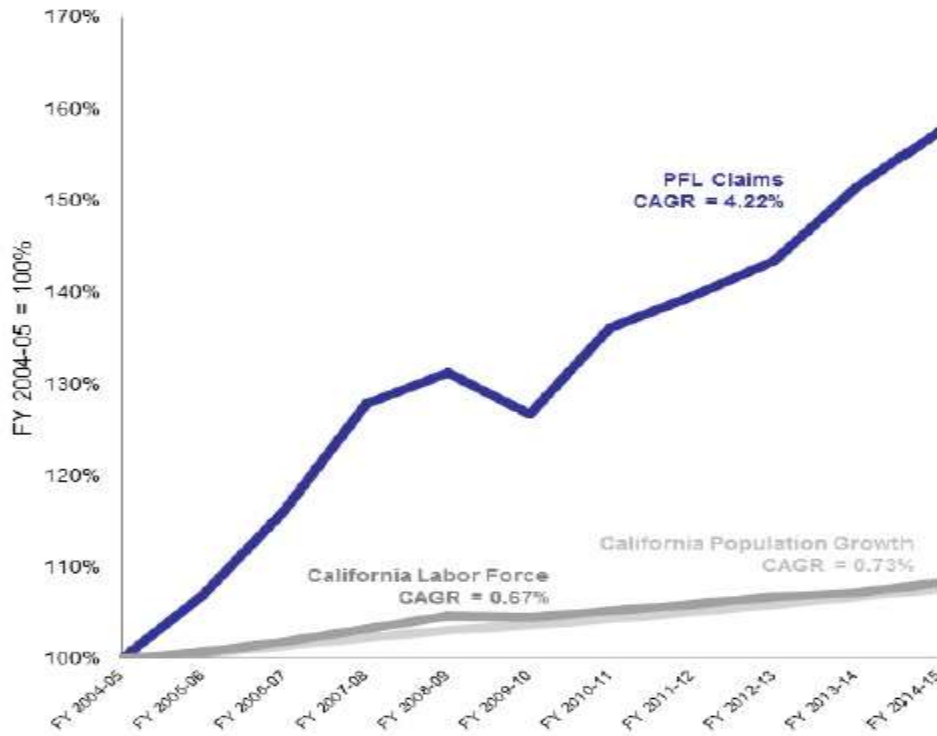
[http://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Ways%20and%20Means/Bills/H.196/W~Joyce%20Manchester~H.196%20FML,%206%20weeks,%20\\$150,000%20cap~4-20-2017.pdf](http://legislature.vermont.gov/assets/Documents/2018/WorkGroups/House%20Ways%20and%20Means/Bills/H.196/W~Joyce%20Manchester~H.196%20FML,%206%20weeks,%20$150,000%20cap~4-20-2017.pdf)

Table: Comparison of Paid Family Leave Plans in Seven States								JFO/jm; April 24, 2017
		Ongoing programs			Enacted, not yet effective			Proposed
		California	New Jersey	Rhode Island	Washington	New York	Washington, DC	Vermont (proposed)
Status	Enacted	2002	2008	2013	2007	2016	2017	----
	Effective	2004	2009	2014	----	2018	July 2020	July 1, 2017;
								Tax begins July 1, 2018; Ben's begin July 1, 2019
Reasons and Duration (wks)	Family care	6	6	4	----	8 in 2018, 10 in 2019,	6	6
	Birth, adoption, foster	6	6	4	5	and 12 in 2021	8	6
	Own disability (year established TDI*)	52 (1946)	26 (1948)	30 (1942)	----	26 (1949)	2	----
	Maximum, if any			Max combined=30				Max 6 wks in 12 mos; Max 12 wks from combining employer and family leave
Definition of Family Member	Child	X	X	X	Newborns only	X	X	X
	Parent	X	X	X		X	X	X
	Spouse	X	X	X		X	X	X
	Domestic partner	X	X, civ unnn partner	X		X	X	X
	Grandparent			X		X	X	X
	Grandchild					X		If primary caregiver
	Sibling						X	X
Parent-in-law							X	
Eligibility		\$300 in wages in base period	>= 20 weeks covered in NJ with >= \$168/wk	Covered employment in RI of at least \$11,520 in base year	Worked 4 out of 5 previous quarters	Family care: With current employer at least 26 consecutive weeks	Worked at least 50% time with DC employer	Employed in Vermont for at least 12 of the previous 13 months
			OR earned at least \$8,400 in base year	OR earned at least \$1,920 in a quarter and \$3,840 or more in base year	AND at least 680 hours in base year	Own care: With current employer at least 4 consecutive weeks	AND in covered employment for at least 52 weeks	
Funding	Employer pays		0.1% to 0.75% on 1st \$32,600		Not yet determined	0.5% up to \$0.60/wk	0.62%	optional
	Employee pays	0.90%	0.28% on 1st \$32,600	1.2% on 1st \$66,300		0.5% up to \$0.60/wk; all family care costs		0.141% up to \$150,000
Benefit amount	Per week	55% own wages**	66% own wages	4.62% of qtrly wages (about 60% of avg wkly wages)	\$250/wk if work >= 35 hrs/wk; prorated for part-time workers	Fam care: 55% avg wkly wage, not to exceed 55% of state AWW in 2019; for own disability, 50% own weekly wage, max \$170/wk	If < 150% of DC min wg * 40, 90%; If >150% of DC min wg * 40, 90% of DC min wg * 40 + 50% of own wkly wg in excess	The lesser of 80% of own avg wkly wage or twice the livable wage if 40 hrs/wk (\$1,042.40 in 2016)
	Maximum	\$1,173/wk	\$633/wk	\$817/wk			\$1,000/wk	\$1,042.40/wk

Table, continued		California	New Jersey	Rhode Island	Washington	New York	Washington, DC	Vermont (proposed)
<b>Employer type</b>	Private	All	All if UE Comp	All	All	Most	All in UE Comp	All
	Public	Some	All if UE Comp	Some	All	Some	Not	All
	Self-employed	Opt in	All if UE Comp		Opt in	Opt in	Opt in	
<b>Waiting period</b>		1 week in 2018; then none	7 days (paid if receive benefits for <= 3 wks)	None; must be out of work for 7 days	1 week	Family care: none; Own disability: 7 days	1 week, only once per year	Notice to employer as soon as practicable
*TDI is Temporary Disability Insurance for short-term disability								
**CA beginning in 2018: If quarterly earnings >= \$929 but < 1/3 state avg qtrly wage, <b>70%</b> of worker's wkly wage;								
For more detail, see <a href="http://www.nationalpartnership.org/research-library/work-family/paid-leave/state-paid-family-leave-laws.pdf">http://www.nationalpartnership.org/research-library/work-family/paid-leave/state-paid-family-leave-laws.pdf</a>								

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

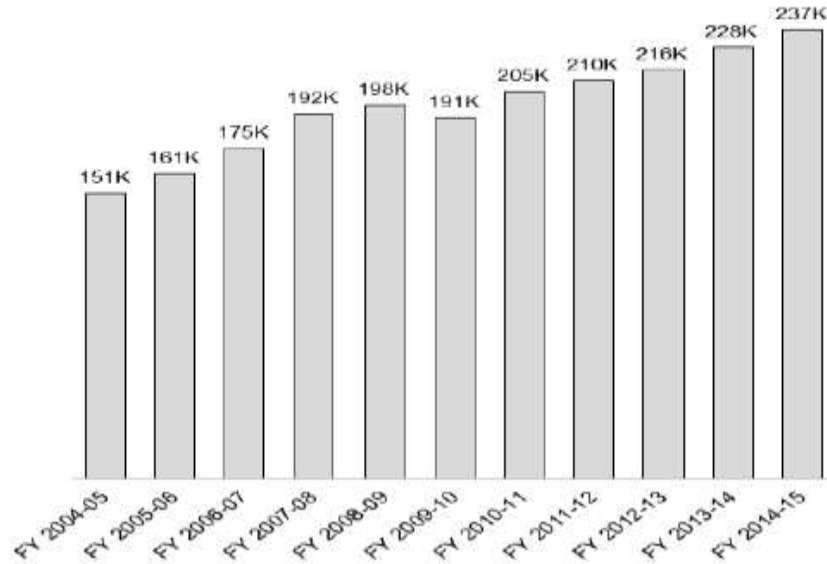
Figure 4.3  
PFL Claims (2004-2014)



Source: EDD and Department of Finance

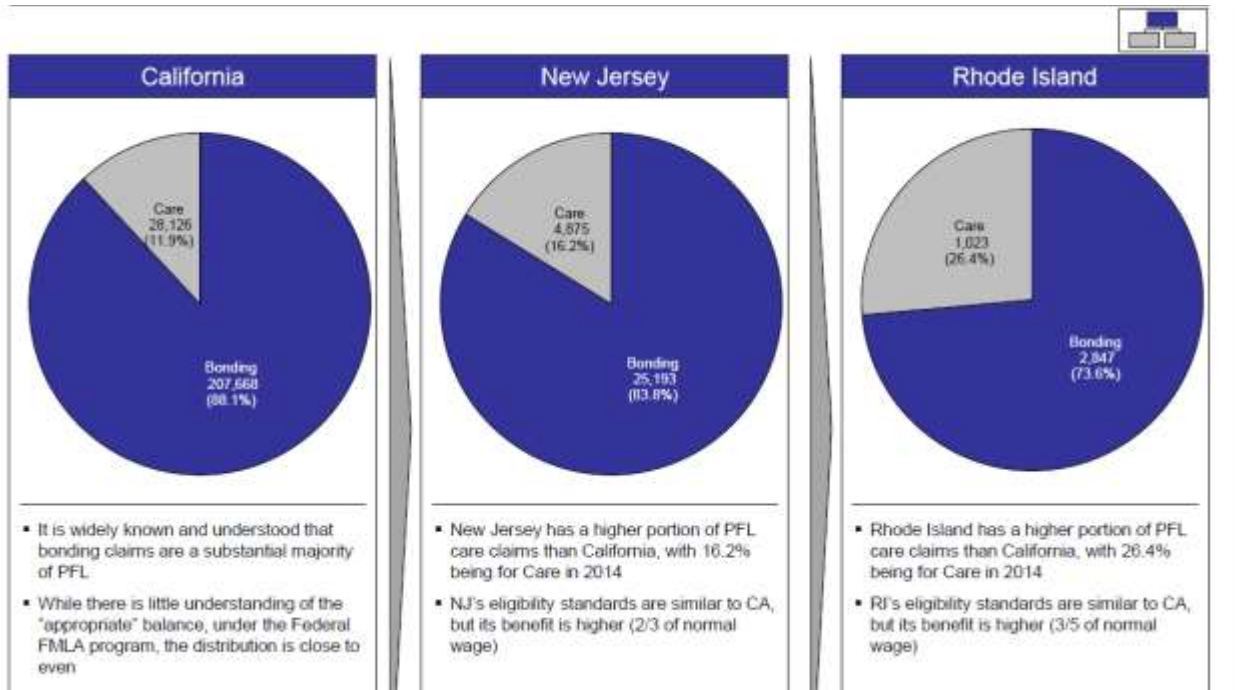
Source: Paid Family Leave Market Research (Main Report and Appendix), July 13, 2015; Employment Development Department, State of California.

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

