

# Vermont Legislative Joint Fiscal Office

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## *Preliminary Fiscal Note*

Date: March 15, 2017

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

As introduced in the House Committee on General, Housing and Military Affairs

#### 1. Overview of Proposed Bill

- Establish a Family Leave Insurance Program in the Department of Labor to provide employees with 12 weeks of paid family leave, funded by payroll taxes on employers and employees
- Bill effective Jan. 1, 2018 (could move to July 1, 2017 to allow 2 years for setup)
- Taxes begin July 1, 2018
- Benefits begin Jan. 1, 2019 (study assumed July 1, 2019)

#### 2. Impact on State Budget

##### A. For State Employees

- Payroll tax on wages of State personnel
  - FY19: ~\$2.7 million (0.465% of payroll)
  - FY20: ~\$2.8 million (0.465% of payroll)
- Replacement of State workers who take longer leaves; the average leave taken in FY16 was 4.6 weeks
  - FY19: range is ~\$1.5 million to \$7.5 million (if in place 6 mos.)
  - FY20: range is ~\$3.2 million to \$15.4 million (in place full year)
  - The range is affected by use of the employer's plan, the additional length of leave taken under the new plan, and the need to replace the worker
- 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 Education Employees

- Payroll tax on wages of education personnel
  - FY19: ~\$4.4 million (0.465% of payroll)
  - FY20: ~\$4.6 million (0.465% of payroll)
- Cost of replacing education workers who take longer leaves not available

#### 3. Department of Labor Management Issues

- Estimated cost of DOL IT system ~\$2.5 million according to study 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

#### 4. Tax Rate Mechanism

- Bill allows a Commissioner to set a tax rate; this may be an issue
- Given the risks noted below, is the payroll tax cap of 1% realistic without ongoing cuts in benefits?

#### 5. Comparison to Systems in Other States and Jurisdictions

- Vermont's proposed system is more generous in some respects than those in 6 states
  - 100% wage replacement up to \$52,000; other states range from 55% to 90%
  - 12 weeks for family care; other states offer 4 to 8 weeks
- Bill offers 12 weeks for "serious illness" which is less generous than other states that offer 26 to 52 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 ~25% take-up of state paid leave benefits
- Will adverse selection occur among the self-employed who opt in for 3 years?
  - California's family care program has a 2-year opt-in policy for the self-employed, but if a break occurs in participation, the self-employed worker must wait 18 months to re-enroll
- 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 half, meaning that wages could be affected

Note: Many 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)

**DRAFT Table: Comparison of Paid Family Leave Plans in Seven States**

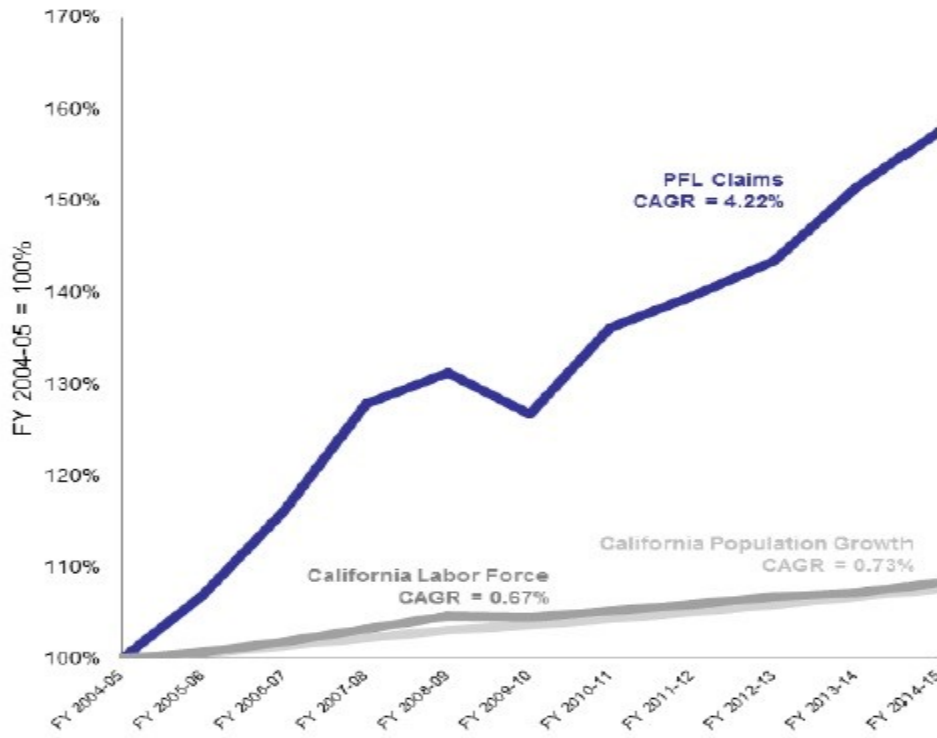
JFO/jm; March 15, 2017

		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	Jan 1, 2018;
								Tax begins July 1, 2018; Ben's begin Jan 1, 2019
Reasons and Duration (wks)	Family care	6	6	4	----	8 in 2018, 10 in 2019,	6	12
	Birth, adoption, foster	6	6	4	5	and 12 in 2021	8	12
	Own disability (year established TDI*)	52 (1946)	26 (1948)	30 (1942)	----	26 (1949)	2	12 - "serious illness"
Maximum, if any				Max combined=30				Max 12 wks in 12 mos; Up to 6 wks from employer paid 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 unn partner	X		X	X	
	Grandparent			X		X	X	X
	Grandchild					X		
	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 6 of the previous 12 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%	0.465%; max 0.5%
	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		0.465%; max 0.5%
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; pro-rated 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 100% 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	Opt in for 3 years; benefits after 6 mos.
<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	Reasonable notice
*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>								
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DRAFT Appendix I: Evaluation of California's Paid Family Leave Program after 10 Years (2015): Claims for Family Care

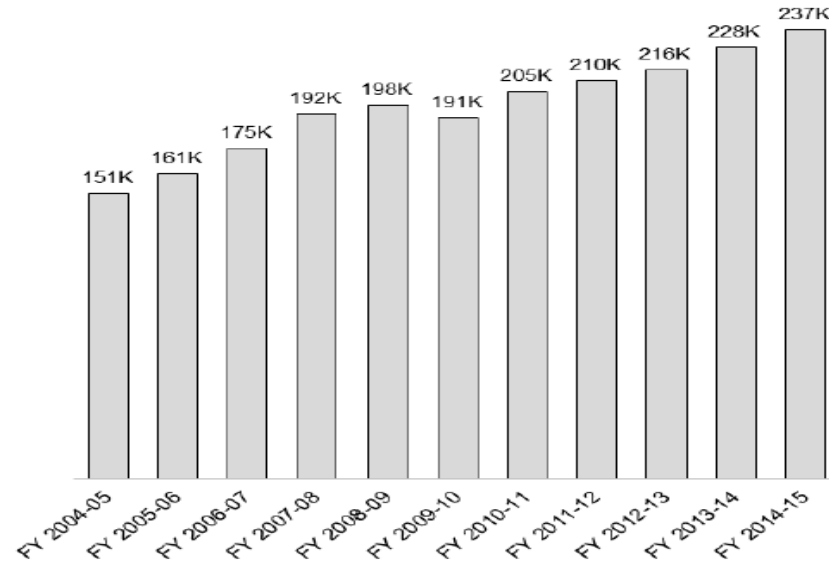
Figure 4.3  
PFL Claims (2004-2014)



Source: EDD and Department of Finance

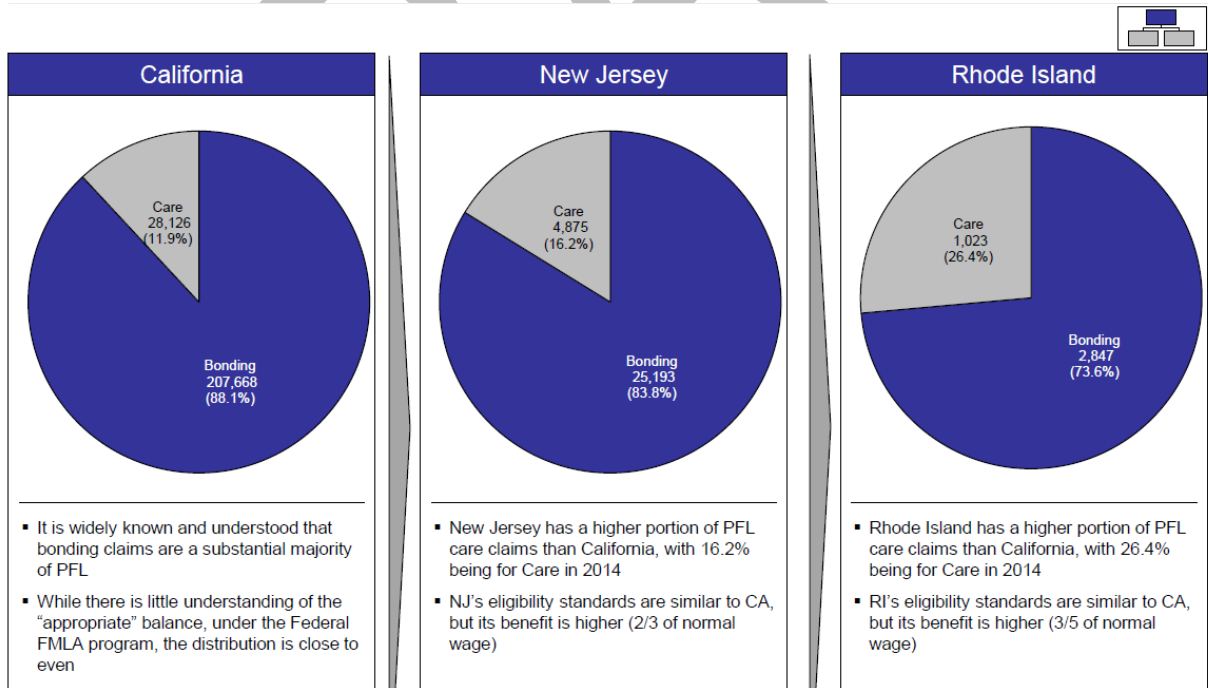
Source: Paid Family Leave Market Research (Main Report and Appendix), July 13, 2015; Employment Development Department, State of California.

Figure 4.2  
PFL Claims (2004-2015)

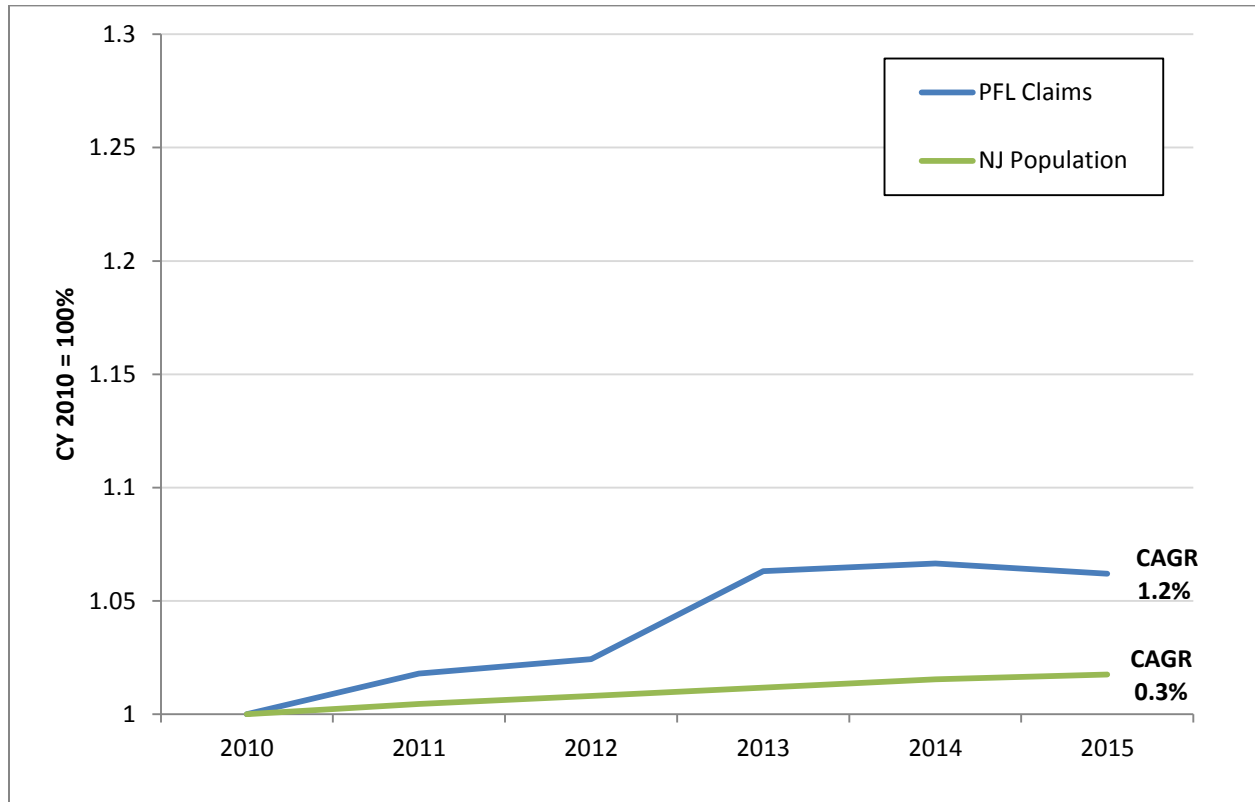


Source: EDD

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



Appendix III: IMPAQ Model Results under Four Policy Scenarios

	6 Weeks, 100%*	6 Weeks, Modified*	12 Weeks, 100%*	12 Weeks, Modified*
Total Cost (mil)	\$47.4	\$40.5	\$79.4	\$66.8
Cost as % of Total Earnings	0.55%	0.47%	0.93%	0.78%

\*100%: 100% of own wages up to twice Vermont’s livable wage, ~\$52,000; then capped  
 Modified: 90 percent of weekly earnings up to Vermont’s livable wage and 60 percent of weekly earnings up to twice Vermont’s livable wage