

# Vermont Legislative Joint Fiscal Office

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## *Fiscal Note*

Date: May 2, 2018

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### **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 uncertainty<sup>1</sup>
- 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

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<sup>1</sup> 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](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%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)

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

<https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/Senate%20Economic%20Development/Bills/H.196/H.196~Joyce%20Manchester~Memo~4-19-2018.pdf>.

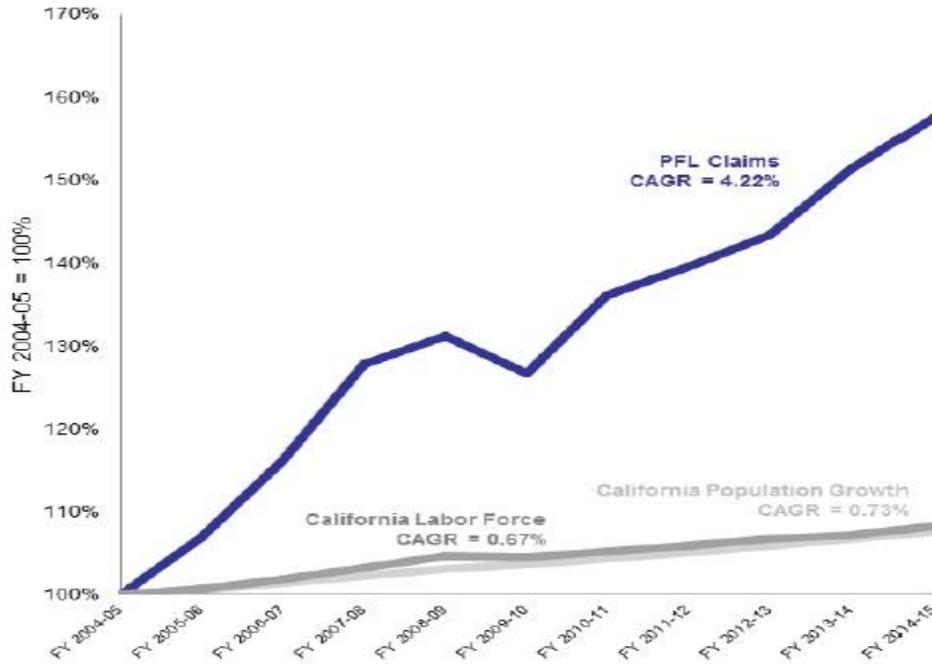
					JFO/jm; 5/2/18
<b>Cash Flow for Paid Family Leave</b>					
<b>Assumptions/Parameters</b>	Total IT Devel Cost	Pyrl Tax Rate, Yr 2+	Int rate on Treas funds		
IT: Collect contributions, pay out benefits	\$500,000	0.136%	2.00%		
	Start System 7/1/18	Start Taxes 7/1/19	Start Benefits 10/1/20		
	One year start-up	No ben's in FY2020	Fully operating in Oct.	Fully operating	Fully operating
	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
<b>TOTAL REVENUE</b>	\$0	\$16,394,728	\$16,704,627	\$16,905,851	\$17,085,541
<b>Contributions from payroll tax</b>	\$0	\$16,411,761	\$16,608,703	\$16,808,007	\$17,009,703
<b>Interest on fund balance</b>	\$0	-\$17,033	\$95,925	\$97,844	\$75,838
<b>TOTAL COSTS (ben, IT, admin, addn to reserves)</b>	\$851,663	\$10,729,797	\$16,704,612	\$18,103,976	\$18,556,575
<b>Benefits paid (grow 2.5%)</b>			\$12,223,125	\$16,704,938	\$17,122,561
<b>IT product development</b>	\$333,500	\$166,500			
<b>Admin at 8.0% of benefits paid (year 3+), 50% of Study personnel costs, yrs 1&amp;2</b>	\$518,163	\$544,291	\$1,303,474	\$1,336,395	\$1,369,805
<b>Pay off negative fund balance</b>		\$851,663			
<b>Needed additions to reserves</b>		\$9,167,344	\$3,178,013	\$62,644	\$64,210
<b>Reserves required: 75% at t+1</b>	\$0	\$9,167,344	\$12,528,703	\$12,841,921	\$13,162,969
<b>Reserve balance carried forward</b>		\$0	\$9,167,344	\$12,528,703	\$12,841,921
<b>Interest earned on reserves</b>	\$0	\$0	\$183,347	\$250,574	\$256,838
<b>Reserve balance as of start of year</b>			\$9,350,691	\$12,779,277	\$13,098,759
<b>FUND BALANCE</b>	-\$851,663	\$4,796,236	\$4,892,176	\$3,791,894	\$2,396,698

Table: Comparison of Paid Family Leave Plans in Seven States								JFO/jm; May 2, 2018
		Ongoing programs				Enacted, not yet effective		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, 2020
Reasons and Duration (wks)	Family care	6	6	4	8 in 2018, 10 in 2019, and 12 in 2021	12	6	6
	Birth, adoption, foster	6	6	4		12 (14 preg)	8	12 per family
	Own disability (year established TDI*)	52 (1946)	26 (1948)	30 (1942)	26 (1949)	12	2	----
	Maximum, if any			Max combined=30		Max 16 wks combined; (18 if ser ill from preg)	6 family care leave; 8 parental leave; 2 own health	Max 12 weeks in 12 months
Definition of Family Member	Child	X	X	X	X	X	X	X
	Parent	X	X	X	X	X	X	X
	Spouse	X	X	X	X	X	X	X
	Domestic partner	X	X, civ unpartner	X	X	X	X	X
	Grandparent	X		X	X	X	X	
	Grandchild	X			X	X		
	Sibling	X				X	X	
	Parent-in-law	X				X		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	Family care: With current employer at least 26 consecutive weeks	Worked 820 hours during qualifying period (4 qtrs)	Worked at least 50% time with DC employer	Earned at least \$10,710 in Vermont during the last 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	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		0.5% up to \$0.60/wk	0.145% taxable wages (year 1)****	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	0.255% taxable wgs (year 1)****		0.136% up to \$150,000
Benefit amount	Per week	60% or 70% own wages**	66% own wages	4.62% of qtrly wages (about 60% of avg wkly wages)	Fam care: 50% avg wkly wage, not to exceed 50% of state AWW; for own disability, 50% own weekly wage, max \$170/wk***	90% of AWW if earn <= 50% of statewide AWW; if more, 90% up to 50% statewide AWW, 50% of excess	If < 150% of DC min wg * 40, 90%; If >150% of DC min wg * 40, 90% of DC min wg * 40 + 50% of own excess wkly wg	The lesser of 70% of own avg wkly wage or twice the livable wage if 40 hrs/wk (\$1,042.40 in 2016)
	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
*TDI is Temporary Disability Insurance for short-term disability								
**CA beginning in 2018: If quarterly earnings >= \$929 but < 1/3 state average quarterly wage, <b>70%</b> of worker's weekly wage; if quarterly earnings >= 1/3 of state average quarterly wage, the weekly benefit rate will be the maximum of 23.3% of state average weekly wage or <b>60%</b> 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 <b>55%</b> of the worker's weekly wage up to 55% of the state AWW; in 2020, <b>60%</b> ; and in 2021, <b>67%</b> (increases subject to delay); for disability benefit, if employee 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. 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 <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>								

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

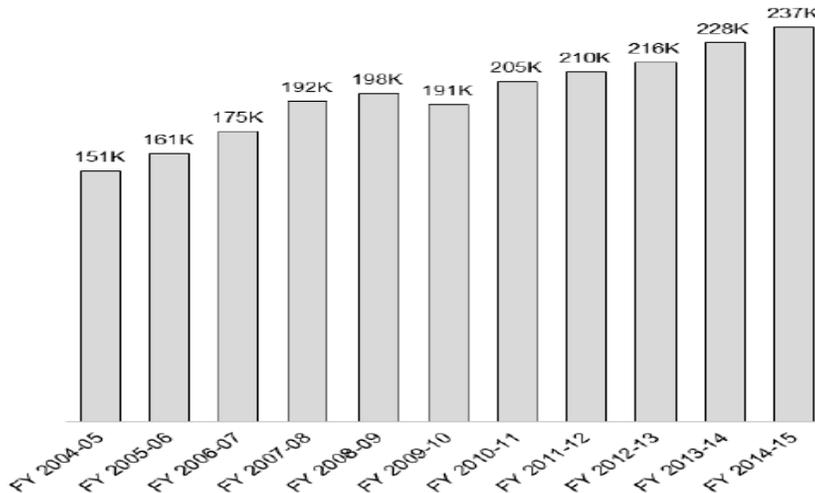
Figure 4.3  
PFL Claims (2004-2014)



Source: EDD and Department of Finance

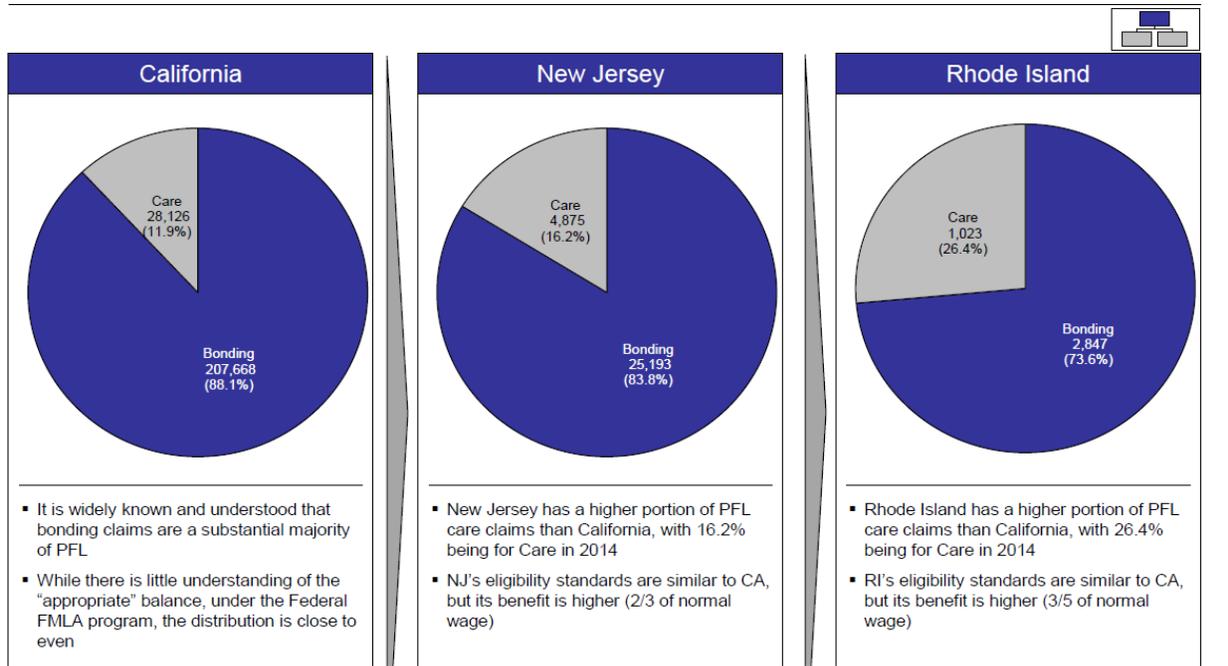
Source: Paid Family Leave Market Research (Main Report and Appendix), July 13, 2015;  
Employment Development Department, State of California.

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

