

**H.107 An act relating to paid family and medical leave –
House Ways and Means Proposal of Amendment – PRELIMINARY NOTES**

1. Overview of Proposed Bill

- Establish a Family and Medical Leave Insurance Program to provide employees with up to 12 weeks of parental/bonding leave or up to 8 weeks of own medical leave or family care leave, funded by payroll taxes
- Benefits would be 90 percent of average weekly wage up to the Vermont livable wage (\$533.60 per week, or \$27,747 per year) and 50 percent of average weekly wage beyond the Vermont livable wage; the weekly benefit amount would be capped at 2.5 times the Vermont livable wage (\$1,334 per week)
- Bill effective July 1, 2019
- Taxes begin January 1, 2020
 - A payroll tax rate of approximately 0.2 percent to cover approximately \$8 million to \$11 million in administrative costs in FY2020 before benefits begin
 - A payroll tax rate of 0.55 percent to 0.58 percent of wages up to the Social Security taxable maximum (\$132,900 in 2019) to cover approximately \$70 million in benefit costs in FY2021
- Benefits begin July 1, 2020

2. Impact on State Budget and State Employees

A. For State Employees

- Would State employees use the FMLI program?
- Cost of replacing employees who take additional family and medical leave

B. For School Employees

- Would public school employees use the FMLI program?
- Cost of replacing employees who take additional family and medical leave

C. Administrative Costs

- The Vermont Department of Labor would issue an RFP to find a third-party administrator that can run a program that meets the goals of the legislation in a more cost-effective manner than the Vermont Department of Labor
- A third-party administrator is expected to charge fees equal to between 7 percent and 12 percent of the statewide benefit cost
- The Vermont Department of Taxes will collect the FMLI payroll taxes from employers on a quarterly basis
- The Vermont Department of Labor will write rules for the program, carry out marketing, and handle appeals that come to the State

D. Family and Medical Leave Insurance Special Fund

- The Department of Taxes would deposit all payroll taxes into the Special Fund at the Vermont Treasury Department;
- The Special Fund would earn 2.5% interest on any balances

- It is possible that the Treasury would appropriate payments to the third-party administrator directly from the Special Fund as needed
 - The third-party administrator for State employee health insurance, BCBSVT, bills the State weekly for the actual claims; the State has Finance pay them weekly; and the funds come out of the Medical Internal Services fund

Fiscal Year 2020

- July – December VDOL issues RFP and chooses vendor by November 1
- Department of Labor develops rules, trains personnel to answer calls and handle appeals
- Department of Taxes develops IT to collect payroll taxes
- January – June Employers submit payroll tax contributions to Dept. of Taxes quarterly

Fiscal Year 2021

- July – June Program is fully operating with applications for benefits, benefit payouts, and payroll taxes

One-time fees

Number of employer “groups”

- Vermont has 80 large private employers with 250+ employees
- Vermont has about 23,900 small private employers with less than 250 employees
- Vermont also has State employees, public education employees, Municipal employees, and employees in the nonprofit and self-employed sectors
- Aggregating those employers into groups with about 250 employees give 383 “groups” in total, if such aggregation can be done
- Each “group” might be charged \$1500 in one-time fees, or \$574,350 at a minimum

In addition, employers with existing PFML program would be charged a one-time “history” fee

- I would guess that 20 percent of employers with 50+ employees now have a program
- At \$1000 each, that would be \$161,000

Hence I estimate the one-time fees would be in the neighborhood of \$1,000,000

Note: As a placeholder, I expect that wages in Vermont up to the Social Security taxable maximum are 96 percent of wages up to \$150,000

For reference:

Employees in VT, Jan. 2019	336,851
Private Employment, March 2018	253,913
Public education employees (2016-17)	18,272
Municipal employees (active VMERS)	7,452
Nonprofit (use half)	19,000
Self-employed (BFP, use half)	30,000
Sum of Sector employment	328,637

HIGHLY PRELIMINARY -- LIKELY TO BE REVISED		JFO/Joyce Manchester; March 22, 2019				
Ways and Means Strike-All Amendment, 22March 2019						
Model 1: 12/8, 90/50. 2.5*VLW	FY2020	FY2021	FY2022	FY2023	FY2024	
	Taxes begin 1/1	Ben's begin 7/1	Full operations	Full operations	Full operations	
If 3rd-party nonbenefit fees are 7%						
Total Benefits	\$0	\$70,417,097	\$71,473,353.20	\$72,545,453.50	\$73,633,635.30	
Administrative 3rd party (one-time fees Year 1)	\$1,000,000	\$4,929,197	\$5,003,135	\$5,078,182	\$5,154,354	
Advance fee & pymnt to 3rd party in Year 1	\$4,929,197					
Administrative VDOL	\$586,972	\$680,458	\$696,109	\$712,119	\$728,498	
Administrative VTax	\$1,000,000	\$644,490	\$659,313.27	\$674,477.48	\$689,990.46	
Total Cost	\$7,516,169	\$76,671,242	\$77,831,910	\$79,010,232	\$80,206,478	
Payroll tax rate (Total Cost/(Contributions + Interest))	0.100%	0.553%	0.553%	0.553%	0.553%	
Contributions from payroll tax	\$13,661,833	\$76,671,242	\$77,831,697	\$79,010,232	\$80,206,478	
Excess funds	\$6,145,664	\$6,164,870	\$6,241,931	\$6,319,955	\$6,398,954	
Interest on excess funds (2.5%)	\$0	\$38,410	\$154,122	\$156,048	\$157,999	
Total Revenue	\$13,661,833	\$76,709,652	\$77,985,819	\$79,166,280	\$80,364,477	
If 3rd-party nonbenefit fees are 12%						
Total Benefits	\$0	\$70,417,097	\$71,473,353	\$72,545,453	\$73,633,635	
Administrative 3rd party (one-time fees Year 1)	\$1,000,000	\$8,450,052	\$8,576,802	\$8,705,454	\$8,836,036	
Advance fee & pymnt to 3rd party in Year 1	\$8,450,052					
Administrative VDOL	\$586,972	\$680,458	\$696,108.53	\$712,119.03	\$728,497.77	
Administrative VTax	\$1,000,000	\$644,490	\$659,313.27	\$674,477.48	\$689,990.46	
Total Cost	\$11,037,024	\$80,192,096	\$81,405,577	\$82,637,504	\$83,888,160	
Payroll tax rate	0.100%	0.578%	0.578%	0.578%	0.579%	
Contributions from payroll tax	\$13,661,833	\$80,192,096	\$81,405,483	\$82,637,504	\$83,888,160	
Excess funds	\$2,624,810	\$2,633,012	\$2,665,925	\$2,699,249	\$2,732,989	
Interest on excess funds (2.5% on 20% of excess funds)	\$0	\$16,405	\$65,825	\$66,648	\$67,481	
Total Revenue	\$13,661,833	\$80,208,501	\$81,471,308	\$82,704,153	\$83,955,641	
For Reference:	FY2020	FY2021	FY2022	FY2023	FY2024	
Wages up to \$150,000	\$14,231,076,279	\$14,444,542,423	\$14,661,210,560	\$14,881,128,718	\$15,104,345,649	
96% of Wages up to \$150,000	\$13,661,833,228	\$13,866,760,726	\$14,074,762,137	\$14,285,883,569	\$14,500,171,823	
Benefits in Model 1	\$69,376,450	\$70,417,097	\$71,473,353	\$72,545,453	\$73,633,635	