

# Modeling a Program of Family and Medical Leave Insurance

Senate Committee on Finance

Patrick Titterton, Fiscal Analyst, Joint Fiscal Office

February 2, 2023



# Decisions Involved in Setting Up a Program of FMLI

- What types of leave?
- Who is eligible for benefits?
- What are the parameters in the benefit formula?
- How much do administrative services cost?
- How is program revenue raised?



# Types of Leave

- Own serious illness
- Family member's serious illness
- New baby/adoption/foster care
- Military families
- Safe leave
- Bereavement leave
  - ➔ How many people will take each type of leave?
  - ➔ How many weeks per type of leave?



# Benefit eligibility

- Must have contributed to the program
  - Some states stipulate a participant must have a minimum value of earned wages
  - States typically require participants must have had earnings over a set period of time (ex. two of the last four quarters)
- Include self-employed individuals or not
  - If include, voluntary or mandatory
  - If opt in, for what period of time
  - How to re-up enrollment



# Parameters in the benefit formula

- Reimbursement rate, or what % of weekly wages would be paid out
- Maximum weekly benefit
- Waiting period, if any
- Length of various benefit leaves
- Maximum total number of weeks taken per year
- Minimum number of leave hours taken
- Intermittent vs. continuous leave



# Parameters in the benefit formula

- Reimbursement rate, or what % of weekly wages would be paid out
  - Typically set as either a flat percentage or as a bracketed percentage
- Maximum weekly benefit
  - Often set at or as a percentage of the average weekly wage
- Waiting period, if any
- Length of various benefit leaves
- Maximum total number of weeks taken per year
- Minimum number of leave hours taken
- Intermittent vs. continuous leave
  - ➔ Expected cost of benefits



# Administrative costs

- One-time costs as well as on-going costs
  - One-time costs include software development, IT hardware, start-up personnel, rule-making, establishing a FMLI Special Fund
    - One aspect of this includes which State Agencies are involved or whether a private administrator is used
  - On-going costs include personnel and IT upkeep for benefit eligibility and payout, appeals, revenue collection, etc.
- Operation generally requires 12 months' expected benefit costs plus administrative costs in the Special Fund
- In addition, prudence generally requires a reserve fund
  - Recently: 9 months of projected benefit payments



# Collecting program revenue

- Type of tax or contribution used to raise revenue
  - Typically a payroll tax
- Who pays the tax or contribution
  - There is a mix across states between those that require the employer, employee or a combination of the two to pay the tax
  - Employers withhold employees' contributions like income tax withholding
  - If self-employed individuals opt in, they pay the full amount of payroll tax in quarterly estimated tax payments





# Tax base

- Contributions to be levied on Vermont wages, cap and/or floor
- States typically apply the payroll tax up to a maximum level of earned wages
  - Most common is up to the Social Security Max
  - Very few have no max
- Recent proposal: exempt individuals with combined wages less than \$25,000
  - Collect contribution throughout the year, then refund through tax filing
- Consideration: Can employers can opt out if they have an equivalent or better plan?



# How JFO estimates FMLI leaves and their cost

- JFO previously used model results through the Institute for Women's Policy Research (IWPR)
  - That model was also the basis for the 2016 Paid Family Leave report
- The U.S. Department of Labor hired IWPR and IMPAQ to make the model accessible to the public
  - JFO is using that publicly available model to model the expected leaves and expected benefit costs
  - We currently assume on-going administrative costs of 7.5% of benefit cost
  - JFO does not yet have specific start-up costs

Thank you!

