2024 Paid Leave Law Fiscal Notes

HOUSE WAYS AND MEANS COMMITTEE

FEBRUARY 17, 2025

STATE OF MINNESOTA
Legislative Budget Office

What will we discuss?

- Background
- Challenges with 2024 Paid Leave Law fiscal notes
- Suggested Interventions

Background

- Fiscal estimates for Paid Leave Law prior to 2024
  - U.S. Dept. of Labor (USDOL) Microsimulation Model on Worker Leave
- 2023 enacting legislation required an actuarial study
- Actuarial analysis released in October 2023 provided two scenarios based on two premium contribution rate methods
  a) Contribution rate of 0.7 percent in year 1 of program and applying premium calculation formula in law
  b) Contribution rate of 0.78 percent in year 1 of the program and that reduces premium fluctuations in the first five years of the program

Background (cont.)

- Agency shared concerns with how 2024 fiscal note estimates would be created
  a) USDOL microsimulation model on worker leave was resource intensive for the agency
  b) Concerned about requesting an actuarial analysis for each suggested change to the Paid Leave program

Fiscal Note Expectations

- Standards for fiscal notes are governed by Minn. Stat. § 3.98 and the Fiscal Note Uniform Standards and Procedures
- Estimate the fiscal effect from the current law base budget
- Assumptions are reasonable, accurate, and objective
- Assumptions and methodology provide sufficient detail to support the fiscal estimates

Challenges with 2024 Paid Leave Law Fiscal Notes

1. No apparent and obvious baseline from which to measure changes

2. Refinement of agency interpretation of the Paid Leave Law following the 2023 legislative session

3. Assumed use of permissive authority to adjust first year premiums

Establishing a Baseline

- Fiscal notes must be measured from an established and agreed-upon baseline
- Entitlement program without historical data in Minnesota
- Paid leave program estimates were not included in MMB Budget and Economic Forecast prior to November 2024
- Actuarial analysis required by enacting legislation, completed prior to the 2024 legislative session

Baseline used was Oct. 2023 Actuarial Analysis

- Advantages:
  - Most recent and likely most accurate fiscal estimate
  - Consistent with practice for other entitlement programs
  - 2024 proposed changes to the Paid Leave Law were also run through Milliman (actuarial consultant) – this allowed for a consistent methodology between estimates
- Disadvantage:
  - Did not provide measure from 2023 enacted budget

Refinement of Agency Assumptions of the Paid Leave Law

- Seven-day qualifying event – is there a waiting period?
  - 2023 fiscal note and general legislative understanding upon passage of 2023 law assumed there were no unpaid days for a qualifying event
  - October actuarial analysis assumed a seven-day qualifying event meant that the first seven days of a leave were unpaid for all non-bonding related leave
  - If the legislative intent and understanding were no waiting period, but the agency interpretation following passage did assume a waiting period, **does this mean this is a new cost?**

DEED Exercises Authority to Adjust Premium Rate

- Premium rates as established in 2023 Session Law, Chapter 59
  - 1st year premium rate = 0.7% (family and medical benefits)
  - 2nd year and onward, premium rate established using formula (1.2% Cap)

- Enacting legislation allowed for adjustments to premium rate based on actuarial analysis
  - If actuarial analysis indicates the program is not actuarially sound
  - Unclear if this is for the 1st year of the premium rate (see Laws of Minnesota 2023, Chapter 59, art 1, sec 41(c)

DEED Exercises Authority to Adjust Premium Rate (cont.)

- Oct. 2023 actuarial analysis included an alternative contribution rate
  - Alternative first year premium rate of 0.78%
  - Future years have less volatility

Suggested Interventions

1. The LBO is more assertive in communicating clear expectations for information required in a fiscal note to meet standards.

2. The LBO provides a more detailed analysis with fiscal notes in certain situations.

    a) In cases where the note meets standards, but additional information or analysis could prove useful (as in the case with the 2024 Paid Leave Law fiscal notes)

    b) In cases where the LBO releases a fiscal note unapproved – the LBO provides a cover memo for the fiscal note detailing concerns and providing any additional estimates or analysis

Suggested Interventions (cont.)

3. For significant fiscal notes or new programs, agencies engage early in the process of developing fiscal note estimates, providing preliminary assumptions and an outlined approach to fiscal note assumptions.

4. Agencies should communicate with legislative members and staff regarding substantial changes to assumptions related to existing programs. LBO should be included in these communications.

5. Legislature and LBO Oversight Commission reiterate importance of fiscal notes being developed independent of political considerations.

Suggested Interventions (cont 2.)

6. LBO Oversight Commission establish a working group to consider updates to Fiscal Note Uniform Standards and Procedures.

7. DEED should share their plan for estimating the fiscal impact of proposed changes to the Paid Leave Law for 2025 and beyond.

Questions?

Contact Information

- Christian Larson | Director, christian.larson@lbo.mn.gov | (651) 284-6436 | www.lbo.mn.gov

- Kristi Schroedl | Deputy Director, kristi.schroedl@lbo.mn.gov | (651) 284-6544 | www.lbo.mn.gov

- Legislative Budget Office Website