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House File 2 (Richardson)

Dear Members of the House State and Local Government Committee,

The National Federation of Independent Business (NFIB) represents over 10,000 small businesses in every industry and every corner of our state. Nearly 90% of our members have fewer than 20 employees and our average member employs 10 Minnesotans.

NFIB is committed to advocating for the best interests of Main Streets across Minnesota. Small businesses work hard to take care of their employees and contribute to their communities, often on increasingly thin margins and vanishing bottom lines.

NFIB opposes House File 2. This proposal is an outlier in many ways among states that have a Paid Family and Medical Leave (PFML) program, particularly in its treatment of small business.

Higher Payroll Taxes. The program's payroll tax is an added burden at a time when Main Street is still struggling. It amounts to about a billion dollars to start and we believe the cost will rise quickly - perhaps even double in the first few years like Washington's.

Many other states that created PFML programs in recent years set a hard cap on the payroll tax at ~1% of total wages. This provides cost certainty for employers and employees alike. While the Senate has adopted a cap in their version of the bill, no limit exists in the House version.

Small Business Treatment. Most states allow small employers to opt out of the employer share of the premium while still allowing the employee to access the program. This includes Washington, which allows small employers with fewer than 50 employees to opt out of the premium. Those who opt out are not eligible for the small business assistance grants.

The small employer premium opt-out also corrects an unintended cross-subsidy from small employers to big businesses. In Washington, employees of big businesses have consistently used PFML at higher rates compared to their share of the workforce, while employees of small businesses have used PFML at lower rates.

Combined Leave Weeks. The combined benefit duration of 24 weeks exacerbates one of the biggest challenges facing small employers right now. A very high percentage of our members can't find workers. In most cases under this bill, small employers will experience additional uncompensated losses because they won't be able to fill vacancies.

Several other states offer 12 weeks of medical and 12 weeks of family leave. However, they limit total leave in a year to 12 weeks plus two to four additional weeks for limited circumstances like pregnancy complications. Washington allows 16 combined weeks of leave with two additional weeks for pregnancy complications. Delaware allows six weeks of medical and caregiving leave in a 24 month period and exempts small and seasonal employers from the program entirely.

These details matter because other state PFML programs have struggled to accurately peg paid leave benefits to the payroll tax. There is not yet a fiscal note for this year's version of the proposal. However, if program utilization and customer characteristics are closer to the real experience in Washington or Massachusetts than last year's fiscal note assumptions, the payroll tax could easily rise to 1.5 percent or more.

Program Integrity. We are concerned by the lack of balance in eligibility and appeals proceedings and the absence of any ongoing eligibility verification requirements for workers on long-term leave. This is a significant departure from the Unemployment Insurance system and highlights a larger imbalance in House File 2's treatment of employers and employees.

During the UI eligibility determination process, employers are invited to participate and submit relevant information at any point. Employers also have a right to appeal an eligibility determination. Employer participation in these processes plays a key role in detecting fraud and preventing mispayments. House File 2 offers no clear path for employer participation or to make an initial appeal of the eligibility determination.

Thank you for considering the perspective of small businesses.

Sincerely,



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