AMERICAN EXPERIMENT

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Dear Members of the House Workforce Development Finance and Policy Committee:

My name is John Phelan and I am an economist at Center of the American Experiment. Thank you for the opportunity to provide comments on HF 2. I am here to speak in opposition to this bill.

Minnesotans ought to ask themselves: What will this bill mean for you?

First, it will mean a new 0.7% payroll tax on Minnesota's workers, up from 0.6% in the previous proposal. Nominally, this will be split between the employer and the employee, like Social Security, with each paying 0.35%. But research shows that the incidence of payroll taxes like Social Security – who actually bears the burden regardless of what the law says – is borne entirely by workers in the form of lower wages. That is likely to be the case with paid family and medical leave.

And the tax would be regressive, with a steeper hike for lower-paid than higher-paid workers. Someone earning $30,000 annually would see a 23% increase in their state tax liability; for a worker earning $100,000, the hike would be 13%.

In return for this new tax, Minnesota's workers will be able to take up to 12 weeks of paid medical leave and 12 more weeks of paid family leave. This is double the leave offered by most of the 11 states that currently run such a program. The program would pay out up to 90% of regular wages that don't exceed 50% of the state's average, which is currently $66,000 a year, with higher earners receiving smaller percentages above that amount.

Payouts are forecast to be over $1 billion annually, 30% higher than the forecasts for the same bill last session. But this is based on some very favorable assumptions. The fiscal note for this bill is rather more opaque than that for previous versions, but the Department of Employment and Economic Development has said that they expected the average weekly benefit payment to be about $850. Given the 204,057 beneficiaries assumed in the fiscal note, that gives an average leave length of 6.7 weeks.

If, however, we conservatively assume that the average length of leave taken is 12 weeks and the average payout is $990 a week – which it would be for someone on that state average wage – the cost of the program spirals to $2.4 billion annually.

Most Minnesota workers already have some sort of paid family and medical leave scheme. The Minnesota Chamber of Commerce says that 80% of its member companies already provide paid family leave. The National Federation of Independent Business, an association of small businesses, says "The vast majority of small business owners provide flexibility for employees to pick up kids from school, attend tee ball games, and attend to family emergencies." A 2019 analysis by nonpartisan House researchers found that just under 200,000 Minnesota workers would take up benefits in the program annually — less than 7% of the state's workforce.

But don't worry, the DFL assures us that if you like your paid family and medical leave plan, you can keep it. Under the proposal, businesses could opt out of the state-run program.

They would, however, have to pay an accounting fee and would need to offer their own benefits that are at least on par with the state's program. This will mean restrictions on when employees can take leave and how employers should treat employees who do, among others. Private benefits programs will be overseen by a commissioner, who will have the power to terminate such programs if they violate rules. Violations warranting terminations could be as minor as the business failing to provide reports. In addition, employers face penalties for record-keeping and other violations of up to $10,000.

Needless to say, the burden of complying with these regulations will rest most heavily on the state's smaller businesses. To police this, as many as 400 new bureaucrats will be hired using an entirely new computer system: think MNLARS, or MNsure.

This proposal will significantly impact all Minnesota's workers, from the tax to the restriction of their current medical and family leave programs. It will construct a very expensive, invasive, over-engineered hammer to crack a relatively small nut.

Sincerely,

/John Phelan/

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