HF2 - 5A - Paid Family & Medical Benefits Empl Leave

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Commitee:	**Ways And Means**
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Agency:	Employment and Economic Dvlpmt

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)		**Biennium**		**Biennium**	
Dollars in Thousands	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**FY2027**
Paid Family Medical Leave	-	-	-	(1,374,860)	(1,440,275)
Total	**-**	**-**	**-**	**(1,374,860)**	**(1,440,275)**
Biennial Total			**-**		**(2,815,135)**

Full Time Equivalent Positions (FTE)		**Biennium**		**Biennium**	
	FY2023	**FY2024**	**FY2025**	**FY2026**	**FY2027**
Paid Family Medical Leave	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

This fiscal note addresses only the A52 amendment to HF2 and does not include the estimate for the entirety of the HF2 language. This fiscal note is intended to be used in conjunction with the HF2-4A fiscal note to understand changes to the premiums collected by DEED in FY26 and FY27. The changes in this fiscal note reflect the totality of the premium revenue collected, including the small business wage exclusion in the A52, discussed on page 3 of this note. The total cost of the 6th engrossment to HF2 can be determined by replacing the revenue line for DEED on the HF2-4A note with the revenue totals from this fiscal note.

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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium	
Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
Paid Family Medical Leave		-	-	-	(1,374,860)	(1,440,275)
	Total	**-**	**-**	**-**	**(1,374,860)**	**(1,440,275)**
	Biennial Total			**-**		**(2,815,135)**
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Paid Family Medical Leave		-	-	-	-	-
	Total	**-**	**-**	**-**	**-**	**-**
	Biennial Total			**-**		**-**
2 - Revenues, Transfers In*						
Paid Family Medical Leave		-	-	-	1,374,860	1,440,275
	Total	**-**	**-**	**-**	**1,374,860**	**1,440,275**
	Biennial Total			**-**		**2,815,135**

Bill Description

Under this bill, employees and employers would fund the benefit programs described above by paying premiums. All employers would be required to pay premiums, including governmental and nonprofit. The bill would also permit self-employed individuals to opt-in to the program.

Employer premium obligations would be calculated using a taxable wage base consistent with the Federal Insurance Contribution Act (FICA) tax, which is $160,200 for calendar year 2023.

Employers would be able to deduct up to 50% of annual premiums paid from employee wages, subject to the minimum wage.

The bill requires the Department to set employer premium rates annually starting July 1, 2026 based on a ratio of benefits paid to total covered wages. The premium rate for the year beginning July 1, 2025 would be set in statute: 0.70 percent in the bill.

Employers with fewer than 30 employees have premiums reduced on a sliding scale. The wage base is reduced by the lesser of $12,500 multiplied by the number of employees or $120,000. For each employee over 20 employees, the exclusion is reduced by $12,000.

Employers may choose to participate in both the family medical and medical benefit programs; either; or neither (through substitution of a private plan). The premium rate for the medical benefits portion would be 0.57 percent; the premium rate for the family leave portion would be 0.13 percent.

The bill requires that premiums from employers be deposited in a special revenue fund in the state treasury. That fund would be used to pay benefits and grants for the business subsidy program as well as fund the administrative costs associated with this program.

The bill requires the Department to conduct an actuarial study of the family and medical leave premium rate, premium structure, weekly benefit formula, duration of benefit weeks, fund reserve, and other program components. A copy of this study must be provided to the Legislature by October 31, 2023.

Assumptions

Expenditure and/or Revenue Formula

Revenue Formula: Family and Medical Leave Division

The bill states that premium obligations would be calculated using a taxable wage base consistent with the Federal Insurance Contribution Act (FICA) tax, which is $160,200 for calendar year 2023. The Department of Revenue provided projections of FICA Taxable Earnings to estimate program revenues. The values below reflect inflation at the same growth factors for revenue and benefits, based on the FICA taxable earnings projection growth:

Calendar Year	FICA taxable earnings projection (thousands of dollars)	Annual growth factor from previous year	PFML Premium Collection at 0.7% (thousands of dollars)	Less small business wage exclusion (thousands of dollars)	Forecasted PFML Benefits (thousands of dollars)
2023	$ 181,555,812				
2024	$ 187,866,849	3.48%			
2025	$ 198,515,630	5.67%	$ 694,805 (half year)	$(24,172) (half year)	$ 554,588 (half year)
2026	$ 208,459,429	5.01%	$ 1,459,216	$(50,763)	$ 1,164,736
2027	$ 217,879,262	4.52%	$ 1,525,155	$(53,057)	$ 1,217,367

For these revenue collection estimates:

· Premium collection multiplies the 0.7 percent premium by the taxable earnings projection.

· Projections are based on the House Income Tax Simulation Model 7.2, November 2022 Forecast

· We did not assume any employers would substitute a private plan. While any employers choosing a private plan option would reduce collections, we expect it would also reduce expenditures by a proportionate amount.

· We assumed that the 0.7 percent premium rate would not change. As noted above, the bill requires the Department to recalculate employer premium rates annually starting July 1, 2026 based on a ratio of benefits paid to total covered wages.

To estimate the reduction in premium collections due to the small business wage exclusion, we first estimated the total FICA wages for employers with 30 or fewer employees. We then calculated the anticipated total premium collections under the bill for this subset of employers. We then calculated the percentage of these premium collections that would be abated due to the small business wage exclusion by size of employer, and rolled up the values to a single sum. We estimate that this provision would reduce premium collections by $44.212 million in 2022 dollars. The table above grows this provision using the same growth factor as is used for the overall premium collection calculation.

Cost to State and Local Government

This bill would charge premiums to state and local governments. In many cases, these employers already provide family and medical leave benefits. It is unclear what the impact this program would have on such employers and their decisions to substitute a private plan or participate in this program. Absent data that could model this behavior, we assumed that all state and local governments will participate in this program.

These calendar year projections are converted to State Fiscal Year (SFY) projections on page 2 of the fiscal note. DEED converted these calendar year projections to SFY projections by summing the two calendar years for the relevant fiscal year and dividing by 2. For example, the SFY26 value of $1,374,860 comes from adding the CY25 and CY26 values ($1,389,609 and $1,459,216) less the values of the small business wage exclusion ($48,344 and $50,763), and dividing by two.

Long-Term Fiscal Considerations

Local Fiscal Impact

References/Sources

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