Maine Paid Family and Medical Leave Actuarial Analysis

New Program Options

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Contents

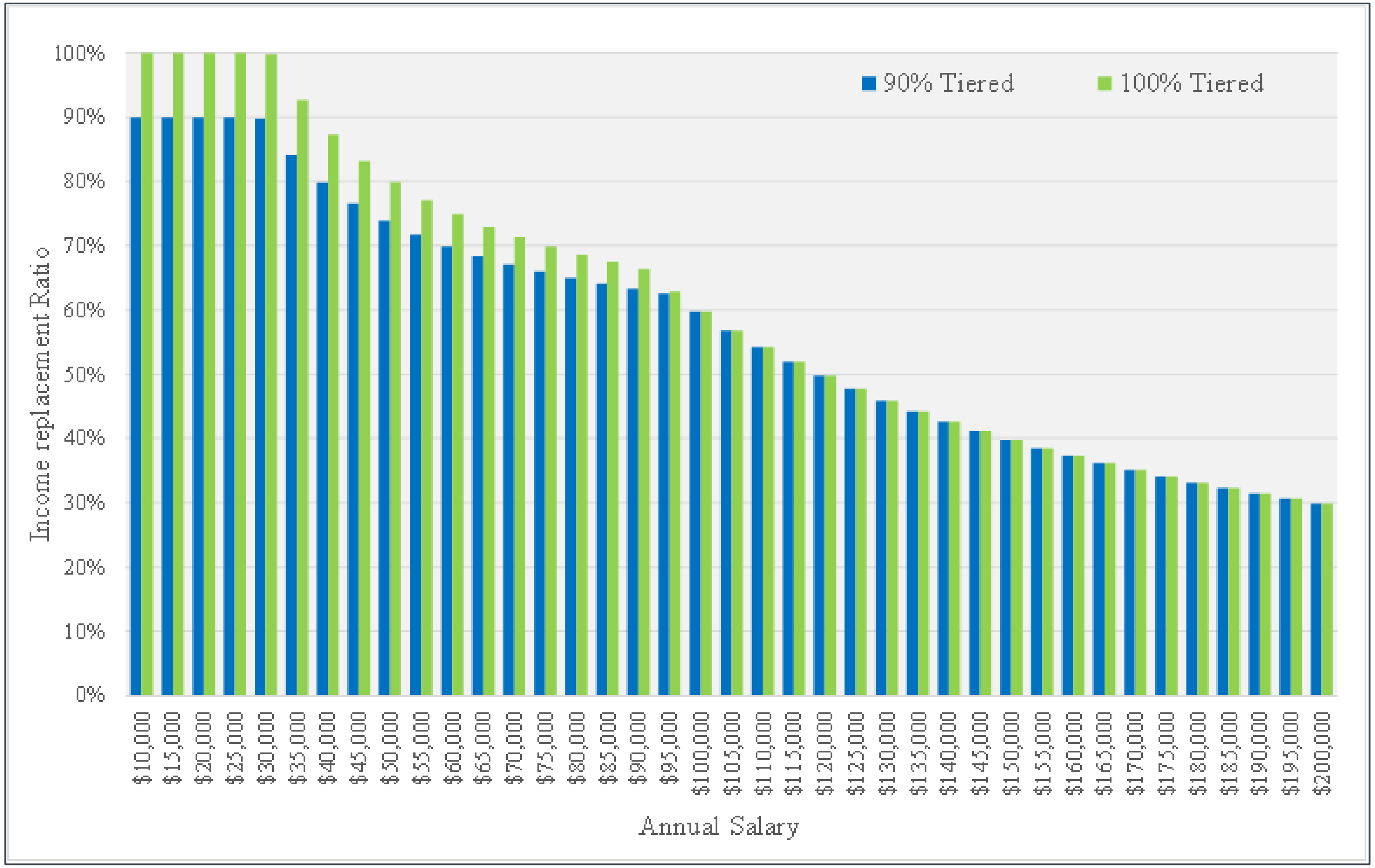
New PFML Program Design Options

Benefit Structure

<u>Prior Analysis</u>: Benefits replace a flat percentage of income (i.e., 80%, 90%, or 100%) up to an amount equal to the state average weekly wage.

<u>New Design</u>: Tiered benefit structure:

1. 90% or 100% of income replacement up to 50% of the state average weekly wage, plus
2. 50% of wages above 50% of the state average weekly wage,
3. up to an amount equal to the state average weekly wage.



New PFML Program Design Options

Other Program Features and Assumptions

- Safe leaves are included in the definition of permissible leaves.
- Employees can receive benefits for up to 12 weeks within a 12-month period for family, medical, and safe leaves of absence, for a combined maximum benefit period of 16 weeks.
- The definition of family member includes relations by affinity.
- Start-up expenses are equal to $65 million based on the Paid Family Medical Leave Citizen Initiative Fiscal Estimate developed by the Maine Department of Labor.
- Two waiting period options: 7-day waiting period for medical claims and none.

Estimated Contribution Rates

Estimated Initial Contribution Rates Basis: Taxable Wages up to Social Security Maximum Wage Limit		
Benefit Percent	**Waiting Period**	**Contribution Rate**
90% Tiered	7-days (medical)	**0.75%**
90% Tiered	None	**0.84%**
100% Tiered	7-days (medical)	**0.88%**
100% Tiered	None	**1.00%**

The highest contribution rate corresponds to a PFML program that features a 100%-tiered benefit structure and no waiting period.

Small Employer Exemptions

- The small employer exemptions shown below apply to employers with fewer than 15 employees.

- The estimated contribution rates for employers and employees assume 25% of contributions are from employers and 75% of contributions are from employees, based loosely on cost sharing arrangements in other states.

Estimated Initial Contribution Rates Basis: Taxable Wages up to Social Security Maximum Wage Limit				
Benefit Percent	**Waiting Period**	**Small Employer Exemption**	**Employer Rate**	**Employee Rate**
90% Tiered	7-days (medical)	Yes	**0.22%**	**0.56%**
90% Tiered	None	Yes	**0.25%**	**0.63%**
100% Tiered	7-days (medical)	Yes	**0.26%**	**0.66%**
100% Tiered	None	Yes	**0.30%**	**0.75%**
90% Tiered	7-days (medical)	No	**0.19%**	**0.56%**
90% Tiered	None	No	**0.21%**	**0.63%**
100% Tiered	7-days (medical)	No	**0.22%**	**0.66%**
100% Tiered	None	No	**0.25%**	**0.75%**

- The small employer exemptions are subsidized by employers with 15 or more employees; therefore, the employer rates are higher when exemptions are included.

- Employee rates are the same in both cases because employees are assumed to contribute 75% of costs regardless of small employer exemptions.

Financial Projection

- ❑ Benefit percent: 90%-Tiered
- ❑ Waiting Period: 7-days (medical)

	2024	2025	2026	2027	2028	2029
Eligible Employees		606,383	607,595	607,595	607,595	606,380
Taxable Wages ($ millions)						
Small Employers (< 15 Employees)	$5,358.5	$5,584.0	$5,824.1	$6,074.6	$6,304.9	$6,544.0
All Other Employers	$29,893.3	$31,151.2	$32,490.7	$33,887.9	$35,172.9	$36,506.6
Total	**$35,251.9**	**$36,735.3**	**$38,314.9**	**$39,962.4**	**$41,477.8**	**$43,050.7**
Claims						
Family		10,760	11,320	11,773	12,126	12,102
Medical		24,200	25,461	26,479	27,274	27,219
Total		***34,960***	***36,781***	***38,252***	***39,400***	***39,321***
Benefit Payments ($ millions)						
Family		$62.5	$68.3	$74.1	$79.6	$82.7
Medical		$150.4	$164.5	$178.5	$191.7	$199.0
Total		***$212.8***	***$232.9***	***$252.6***	***$271.4***	***$281.7***
Expenses ($ millions)						
Family		$3.3	$3.6	$3.9	$4.2	$4.4
Medical		$13.1	$14.3	$15.5	$16.7	$17.3
Total	**$65.0**	**$16.4**	**$17.9**	**$19.4**	**$20.9**	**$21.7**
Total Expenditure ($ millions)						
Family		$65.7	$71.9	$78.0	$83.8	$87.0
Medical		$163.4	$178.8	$194.0	$208.4	$216.3
Total	**$65.0**	**$229.2**	**$250.8**	**$272.0**	**$292.2**	**$303.3**
Contribution Rate						
Employer	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%
Employee	0.56%	0.56%	0.56%	0.56%	0.56%	0.56%
Overall*	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Contributions ($ millions)						
Employer	$65.7	$68.5	$71.4	$74.5	$77.3	$80.3
Employee	$197.1	$205.4	$214.2	$223.5	$231.9	$240.7
Total	***$262.8***	***$273.9***	***$285.7***	***$298.0***	***$309.3***	***$321.0***
Investment Income ($ millions)	*$2.0*	*$2.4*	*$2.8*	*$3.1*	*$3.3*	*$3.5*
EOY Fund Balance ($ millions)	$197.8	$244.5	$281.8	$310.6	$330.7	$351.7
Target Fund Balance ($ millions)			$275.0	$300.9	$326.4	$350.7
Fund Balance % of Prior Year Expenditure			123%	124%	122%	120%

* The overall contribution rate is equal to total contributions divided by total taxable wages every year, and does not equal the sum of the employer and employee contribution rates due to small employer exemptions.

Other Considerations

Funding Methods

- The contribution rates shown above were developed by targeting a fund balance in the range of 120% to 125% of the previous year's expenditure during the program's initial years.
- In general, new PFML programs have higher targets than tenured programs.

CA (1946,2004)

- Target fund balance is 25% to 50% of previous year's expenditure
- Contribution rate is capped at 1.5% of taxable wages.
- Rate reductions capped at 0.2%.

NJ (1948,2009)

- If the account designated to paying benefits is in deficit of $200,000 or more as of December 31st, the Division can assess a charge to employers for covering the deficit

NY (1949,2018)

- Minimum fund balance of $12 million.
- State sets PFL contribution rate annually based on historical experience and "sound actuarial principles".

WA (2020)

- A solvency surcharge is assessed in years when the fund ratio is too low.
- A solvency surcharge of 0.2% was assessed in 2022, bringing the contribution rate up to 0.8% for 2023.

MA (2021)

- Target fund level of 140% of the previous fiscal year's expenditure for benefits and administration.

CO (2023)

- Contributions equal to 135% of benefits paid during the preceding year, plus 100% of expenses during the preceding year, minus the fund balance as of December 31 of the preceding year.
- Contribution rate is capped at 1.2% of taxable wages

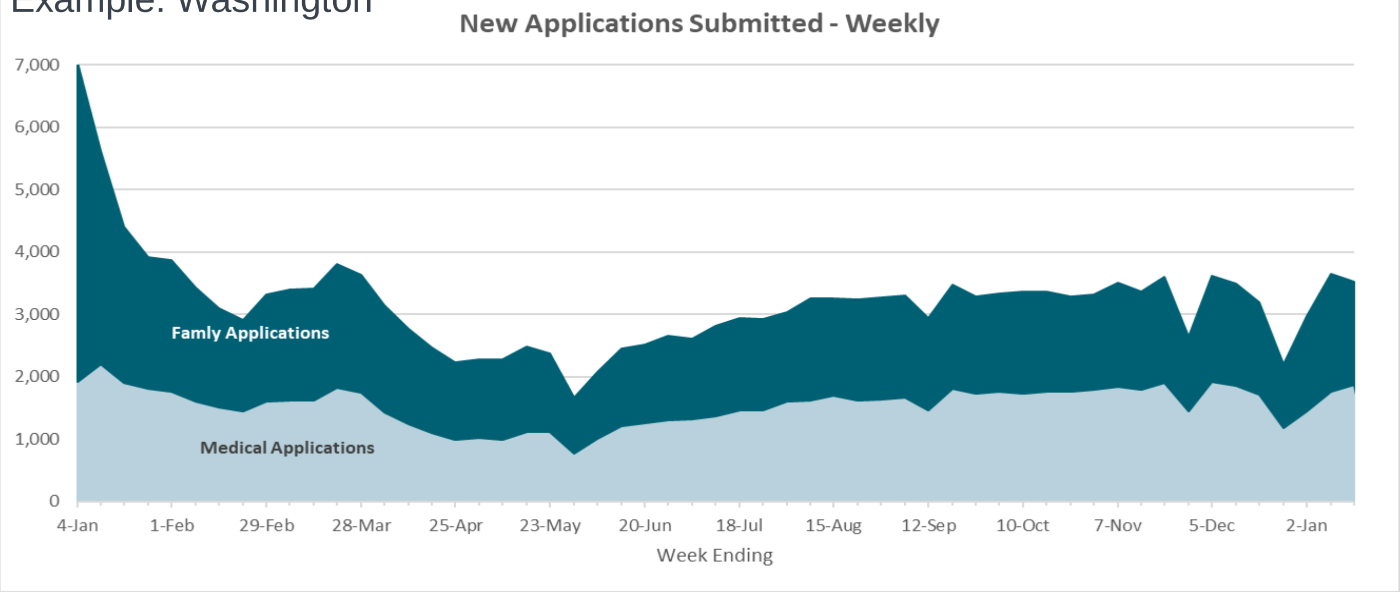
- A higher initial target seems reasonable for new programs due to uncertainty and the lack of directly related experience.

Other Considerations

- Contribution wage base
- Maximum weekly benefit amount
- Benchmarks for combined total benefits
- Impact of private insurance options
- Potential exemption of high wage-earning employees
- Impact of ACA health insurance premium on participation or access
- Participation/enrollment of self-employed individuals or businesses that do not use payroll

- Bonding claims for birth or adoption prior to effective date

Allowing these claims can have a material impact on first year costs
Example: Washington



Source : Washington Paid Family and Medical Leave, Employment Security Department, Advisory Committee Meeting, January 22, 2021

Limitations of Analysis

We relied on information from several sources including the Maine Department of Labor. If any of this information is inaccurate or incomplete, our results may be affected.

The analysis uses actuarial assumptions that are individually reasonable and that, in combination, offer our best estimate of anticipated experience.

To the extent that actual experience varies from the assumptions, the emerging costs of the program will vary from the projections we have prepared.

Milliman's work product was prepared for the Maine Commission to Develop a Paid Family and Medical Leave Benefits Program for a specific and limited purpose. It is not for the use or benefit of any third party for any purpose.

I, Paul Correia, am a Consulting Actuary with Milliman. I am a member of the American Academy of Actuaries, and I meet its Qualification Standards to render the actuarial opinion contained herein.

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Thank you

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