To: Maine's Commission on Paid Family and Medical Leave

From: James Myall, Maine Center for Economic Policy

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Please find below answers to several questions which were posed at the December 12th meeting of the Commission. I'm also happy to answer any follow-up questions or clarify anything in the below document. I can be reached by email at jmyall@mecep.org

What are the costs for employers when workers are out on leave?

The impact of paid family and medical leave programs on employers is generally positive. While there are some costs to employers caused by the disruption of having an employee absent, those costs are generally outweighed by benefits.

I was unable to find a study with a comprehensive accounting of costs to businesses when employees are on leave. Hopefully the following will provide some useful information for the Commission:

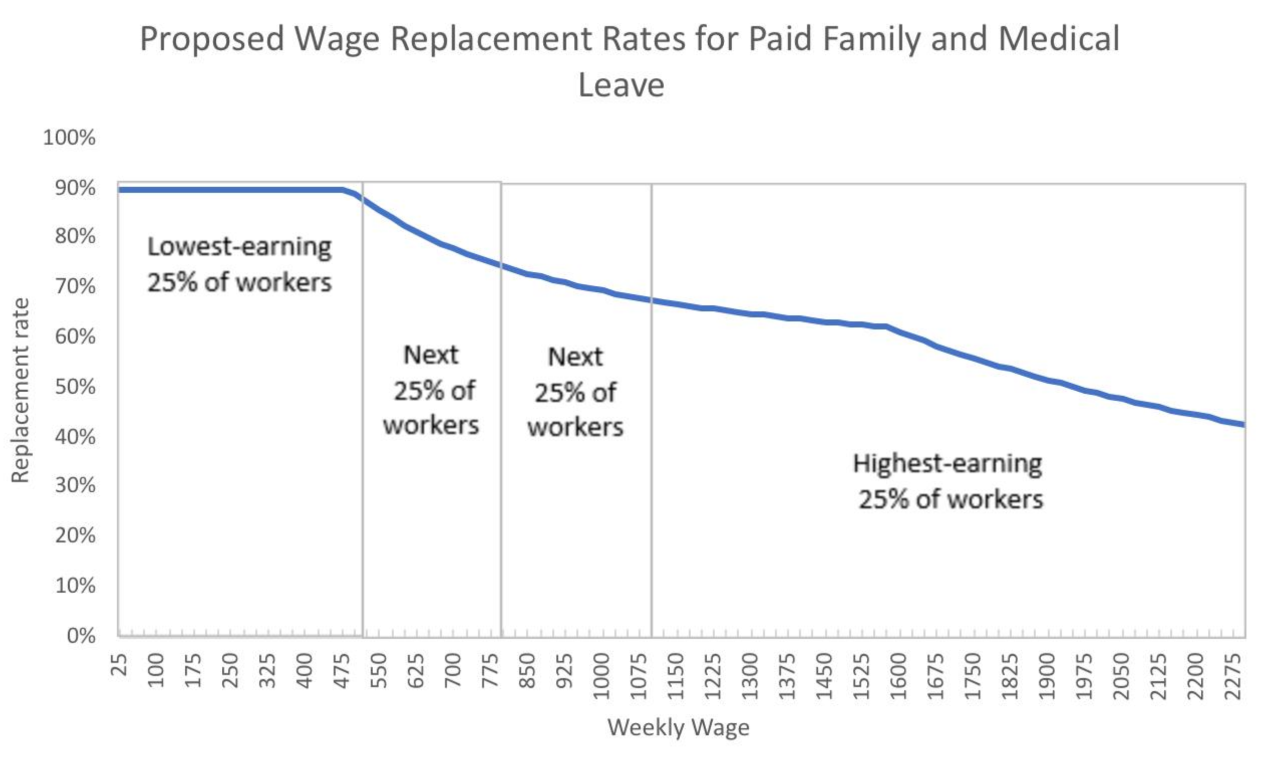
Research shows that existing programs decrease employee turnover without increasing total wage costs.[i] Surveys of businesses in states with existing paid family and medical leave programs show small impacts on employers, and general satisfaction with the laws:

- In Rhode Island, most employers, including small employers, support the law;[ii]
- In New Jersey, employers did not report any abuse of the system;[iii]
- In a New Jersey study, employers mostly responded to employees out on leave by assigning their work to others, meaning there was no extra cost for hiring a replacement.[iv] (This is probably most feasible where leave-taking is for shorter periods).
- 91 percent of California businesses, including small businesses, report no decrease in profitability as a result of the state's paid family and medical leave law;[v]
- The Society for Human Resource Management noted that the fears raised by opponents of California's law had been unfounded, noting that "more than five years later, employers' concerns have so far not been realized"[vi]
- A recent study of businesses in New York had a similar finding, with most employers supportive of the new paid family and medical leave program. After implementation, employers also reported finding it easier to adapt to employee-leave taking, and did not report negative impacts on profits or employee morale.[vii]

Finally, I would also point the commission to a recent national survey which showed significant numbers of Americans who are currently out of work or working part time would increase their hours or go back to work if they had access to paid family or medical leave.[viii]

What do wage replacement rates look like at different wage rates?

The chart below shows the wage replacement rates for workers at different wage levels, on the model of 90/50 wage replacement rate. Because the benefit is calculated based on a worker's usual weekly wage, I've shown the earnings on a weekly basis. To convert to an annual wage, you can multiply these numbers by 52.



Source: MECEP calculation using the US Census Bureau, Current Population Survey, Outgoing Rotation Group sample, 2021.

Some context which may be useful for the Commission:

All workers who earn less than $492 a week would see a weekly benefit equal to 90% of their usual weekly earnings. That covers the bottom 24 percent of earners.

The median wage earner in Maine earns approximately $790 a week. Their weekly benefit would be $592, or 75 percent of their usual weekly wage.

A high wage earner in Maine, at the 75^{th} percentile of wage earners, earns $1,100 a week. Their benefit would be $747 a week, or 68 percent of their usual weekly wage.

What would the cost be to provide more generous benefits?

As I mentioned during the previous session, the main reason for not offering larger benefits is to reduce costs.

As an example, imagine a potential a PFML program with a baseline cost of $152 million per year with the wage replacement structure of 90% up to half the average weekly wage and 50% for amounts above that, capped at the average weekly wage). This would require a payroll tax of approximately 0.52%

If the replacement wage is increased for the lowest-income workers, to 100% of wages below half the average weekly wage, the cost increases to $160 million per year. The payroll tax would increase to 0.54%

If the replacement wage is changed to a uniform 90% capped at the average weekly wage, the cost increases to $170 million per year.. The payroll tax would increase to 0.58%.

In theory, it would be possible to either have a much higher cap on the weekly benefit, or no cap at all. One reason to maintain at least some kind of cap is to reduce volatility in the payments made each year, so that leave-taking by a high-income individual doesn't deplete the fund quicker than imagined.

For example, modifying the above hypothetical to keep the 90/50 wage replacement rate, but increasing the cap to twice the average weekly wage ($1,968 in 2021) would increase the cost from $150 million to $167 million per year, and increase the necessary payroll tax from 0.52% to 0.57%

Alternatively, using the uniform 90 percent wage replacement rate up to the cap of twice the AWW would increase the cost from $170 million to $213 million per year. The payroll tax would increase from 0.58% to 0.72%.

What are the usage rates in other states? How many workers take the maximum amount of leave?

The table below shows recent usage data from other states with active paid family and medical leave programs. While the amount of leave taken varies considerably by state, the average amount of leave taken is generally significantly below the maximum. It appears that employees are more likely to take the maximum amount of pregnancy-based leave and less likely to take the full amount of other kinds of leave.

	Maximum eligible leave (weeks)	Average leave taken (weeks)
CA Paid Family Leave[ix]	8	5.49
CA Disability Insurance[x]	52	16.31
RI Temporary Caregiver Insurance[xi]	4	3.5
RI Temporary Disability Insurance[xii]	30	12.1
NJ Family Leave Insurance[xiii]	12	5.2
NJ Temporary Disability Insurance[xiv]	26	9.8
WA (single reason)[xv]	12	7.5
WA (bonding + medical)[xvi]	16	14.7
MA medical [xvii]	20	11.44
MA family[xviii]	12	10.3

Data for CA, RI and NJ is for 2019. WA data for 2020 and MA data for the first half of 2021. Although its program is active, I was unable to find data for New York's program.

Will a tax exemption for small business employers result in a substantial loss of revenue, due to Maine's large number of small businesses?

Firstly, it's important to distinguish between the size of a business *establishment* and a business *firm.* An establishment is a physical location like a store or factory. A firm represents the entire company. Many published statistics are based on the size of a business establishment, while the legal definition should apply to the firm size. For example, if Starbucks operates 15 restaurants in Maine, they might appear as 15 small businesses if you use the establishment data, because each store will be counted separately. On the other hand, if the data is based on firm size, all the employees across all locations in Maine will be aggregated together as one large business.

The statistics on establishment and firm size show quite a deviation. If you look at the establishment-level data (such as that published by Maine DOL), just under 83,000 Mainers are employed at establishments with fewer than 10 employees. That's about 17 percent of all private-sector employees.[xix]

However, if you look at the more comprehensive firm level data, only 61,000 Mainers work in the private sector for firms with fewer than 10 employees. That's About 13 percent of all-private sector workers.[xx]

Additinoally, consider that workers at smaller businesses have lower average wages than those at larger businesses. This is partly because larger businesses have more managers and upper-level employees than small businesses. In Maine, the average wage income for a worker at a business with fewer than ten employees is just over $32,000 a year. The average wage at a business with more than 1,000 employees is just over $57,000 a year.[xxi]

The relatively small number of employees in small businesses, and the lower average wages mean that the cost of exempting employer-side payroll taxes on these businesses is relatively small.

My calculations from census bureau data found that in 2019, private-sector workers in Maine earned a total of $28.9 billion in wages and salary. Of that, just under $3 billion was earned by workers in firms with less than 10 employees. That's a little over 10 percent of the total taxable revenue. If the payroll tax is split between employees and employers, and only the employer portion is exempted, that reduces the overall taxable revenue by a little over 5 percent.

If the total program cost is $175 million a year, the tax rate without a small business exemption would be $175 / $28,900 = 0.61%.

After a small business exemption, the calculation is $175 / $27,400 = 0.64%

What are the initial and ongoing administrative costs, and how would these impact total premiums?

The most recent estimate I'm aware of from the Office of Fiscal and Policy Review was for LD 701 in the 128th legislature. According to that estimate, the one-time cost of establishing a new division within the Department of Labor, including new computer equipment and software, was just over $34 million. Ongoing administrative (staffing) costs were projected to be $1.9 million annually.

The impact on the payroll tax rate of this ongoing cost would be minimal. For example, with a baseline program cost of $175 million, the overall payroll tax rate would go from 0.606% to 0.612%.

States have taken different approaches in dealing with the one-time start-up costs. Many states have issued bonds for those amounts, and repaid the bonds over a number of years using the payroll tax contributions. If this approach were taken, it might increase the cost of the program by approximately $3.5 million per year for the first decade. Again, the impact on payroll taxes would be small; perhaps an additional 0.01% to the tax rate.

Alternatively, the commission could recommend appropriating the start-up costs from the general fund, particularly since the state is projected to have a substantial surplus this biennium ($800 million).

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[i] https://www.edd.ca.gov/disability/pdf/PFL_Economic_and_Social_Impact_Study.pdf

[ii] https://www.dol.gov/sites/dolgov/files/OASP/legacy/files/AssessingRhodeIslandTemporaryCaregiverInsuranceAct_InsightsFromSurveyOfEmployers.pdf

[iii] https://www.cepr.net/documents/nj-fli-2014-06.pdf

[iv] https://bloustein.rutgers.edu/wp-content/uploads/2012/03/Ramirez.pdf

[v] https://www.cepr.net/documents/publications/paid-family-leave-1-2011.pdf

[vi] https://www.sheppardmullin.com/media/article/809_CA%20Paid%20Family%20Leave%20Act%20Is%20Less%20Onerous%20Than%20Predicted.pdf
[vii] https://www.nber.org/system/files/working_papers/w28672/w28672.pdf
[viii] https://bipartisanpolicy.org/blog/morning-consult-poll-value-of-paid-family-leave/
[ix] https://www.cga.ct.gov/2020/rpt/pdf/2020-R-0055.pdf
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[xvi] https://paidleave.wa.gov/app/uploads/2021/06/WA-Paid-Leave-Utilization_Report_May-2021.pdf
[xvii] https://www.mass.gov/doc/fy2021-dfml-annual-report/download
[xviii] https://www.mass.gov/doc/fy2021-dfml-annual-report/download
[xix] https://www.maine.gov/labor/cwri/qcew.html
[xx] US Census Bureau, Current Population Survey, March Supplement, 2021. Excludes self-employed and govnermnet workers.
[xxi] US Census Bureau, Current Population Survey, March Supplement, 2021.