SENATE COUNSEL RESEARCH & FISCAL ANALYSIS

FISCAL ISSUE BRIEF
Paid Family and Medical Leave

January 2024

The Paid Family and Medical Leave Insurance (PFML) Program was enacted in the 2023 Legislative Session in Chapter 59. The PFML program will provide employees in Minnesota with benefits for a qualifying event related to family leave or a serious health condition. Funding for the program will come from an annual premium on employee taxable wages, of which employers will be required to pay at least 50 percent. The program will begin in FY 2026 on January 1, 2026, and will be administered and operated by the Department of Employment and Economic Development (DEED).

Program Eligibility

Employees eligible for PFML benefits include those who are not able to work due to a serious health condition, qualifying military leave, safety leave, bonding leave, family care, or medical care related to pregnancy. Each leave type is eligible for up to 12 weeks paid leave; however, if an applicant is eligible for more than one leave type, they may only receive up to 20 weeks of paid leave in their 52-week benefit year. The benefit amount will be determined partially based on the applicant's average weekly wage and the state's average weekly wage.

Program Funding

The PFML program will use a newly created family medical benefit insurance (FMBI) account in the Special Revenue Fund to establish and administer the program and pay for benefits. An initial funding amount of $668.3 million in FY 2024 was transferred from the General Fund to the FMBI account to establish the program.

Once the PFML program begins providing benefits, the main source of funding will be a premium paid by employers in the state. Beginning in FY 2026, the PFML program will require all employers in the state to pay a 0.7 percent annual premium on employee taxable wages. Employers must pay a minimum of 50 percent of the premium and may deduct the remainder from employee wages. Premiums will be paid quarterly and deposited into the FMBI account.

Beginning January 1, 2027, the premium rate will be adjusted yearly based on the amount of benefits paid during the previous applicable year, the current amount in the FMBI account, as well as other factors such as total wages in covered employment as provided in a statutory formula (Minnesota Statutes 268B.14). The premium rate must not exceed 1.2 percent of taxable wages paid to each employee. A small business that employes fewer than 30 employees can pay a reduced amount in premiums based on a formula provided in statute.

In FY 2026-27, the program is estimated to collect $2.1 billion in premium revenue and provide $1.8 billion in benefits. Table 1 shows an overview of the FMBI account resources and expenditures. [1]

Table 1. Family and Medical Benefit Insurance Fund, FY 2024-27 *(dollars in thousands)*				
	FY 24	**FY 25**	**FY 26**	**FY 27**
Resources				
Starting Balance	-	613,358	539,784	597,110
General Fund Transfer	668,321	-	-	-
Premium Revenue	-	-	687,430	1,440,275
Total Resources	**668,321**	**613,358**	**1,227,214**	**2,037,385**
Expenditures				
Administration & Startup	54,963	73,574	61,626	5,652
Benefit Payments	-	-	568,478	1,191,052
Total Expenditures	**54,963**	**73,574**	**630,104**	**1,196,704**
Fund Balance	**613,358**	**539,784**	**597,110**	**840,681**

Appropriations & Administration Costs

Table 1 displays "Administrative & Startup" costs under the FMBI fund expenditures. Those costs include direct appropriations made in Chapter 59 from the FMBI account to various state agencies including DEED, Department of Labor and Industry (DLI), Minnesota Management and Budget (MMB), and more for startup and operation costs of the program. A more detailed display of these appropriations by agency is shown below in Table 2.

The appropriations in Table 2 are direct appropriations, meaning they are specified amounts of short-term spending authority in law. Once the benefits begin in FY 2026, the commissioner of DEED may spend up to 7 percent of projected benefit payments for that calendar year to administer the program. Consequently, direct appropriations will not be required to administer the program beginning on January 1, 2026, and later. Table 2 also displays other appropriations from the FMBI account that are ongoing, such as IT costs and notice requirements.

Small businesses with fewer than 30 employees are eligible to receive a grant of up to $3,000 to help defray the cost of hiring temporary workers or increasing wages while an eligible employee is on leave. Chapter 59 provides an ongoing appropriation of $5 million per year from the FMBI account beginning in FY 2026 to pay for these grants, which will be administered by DEED.

A one-time appropriation of $20 million is also appropriated from the FMBI account to the Department of Human Services to provide reimbursements for premium payments made by direct care providers.

[1] The projected revenue and benefit amount is based on an estimate calculated in the completed fiscal note titled "SF2 – 7E – Paid Family & Medical Benefits Empl Leave" dated April 25, 2023.

In addition to the one-time General Fund transfer of $668 million in FY 2024, Chapter 59 made two ongoing General Fund including $35,000 per fiscal year to fund enterprise requirements of notifying employees and $3 million per fiscal year for the costs to state agencies of paying premiums for the program.

Table 2. Paid Family & Medical Leave Direct Appropriations *(dollars in thousands)*			
	FY24-25	FY26-27	FY28-29
FMBI Fund Appropriations			
Employment & Econ Development			
Administration & Staff	38,863	32,205	-
System Buildout	83,432	3,339	-
Business Subsidy Program	-	10,000	10,000
Commerce			
Private Plans Rules & Approvals	692	64	-
Human Services			
IT System Updates	2,649	1,060	1,060
Direct Care Provider Premiums	-	20,000	-
Labor and Industry			
Administration & Staff	715	361	-
IT Costs	260	5	-
Legislature			
Payroll System Updates	18	-	-
Management & Budget			
IT Costs	40	28	28
Notice Requirements	78	62	62
Secretary of State			
IT Costs and Training	388	154	154
Supreme Court			
System Updates and Collections	30	-	-
University of Minnesota			
Staffing Costs for Implementation	1,372	-	-
Total FMBI Fund Appropriations	**128,537**	**67,278**	**11,304**
General Fund Appropriations			
MMB Non-Operating			
Notice Requirements	-	70	70
Costs Incurred by State Agencies Premiums	-	6,028	6,028
Total General Fund Appropriations	**-**	**6,098**	**6,098**

Actuarial Study

Chapter 59 required the commissioner of DEED to contract with an independent actuarial consultant to determine the financial soundness of the family and medical benefit insurance program. The actuarial study was completed on October 27, 2023, by Milliman, Inc. The study analyzed how the annual premium rate of 0.7 percent would change beginning on January 1, 2027, and how the FMBI fund balance would be affected by the changing rate.

The actuary used two methods to determine the premium rate over time: (1) the statutory formula and funding mechanisms provided in law (Minnesota Statutes 268B.14) and (2) an alternate premium rate based on actuarial sound methods to develop a higher fund balance. The statutory method estimated that the 0.7 premium rate is projected to increase to a 0.92 premium rate in FY 2027 and the rate will fluctuate in subsequent years. The alternate method projected a 0.78 premium rate in the first three years of implementation and projects it to increase to a 0.83 premium rate in FY 2029 and will remain stable each year thereafter.

The study did not make recommendations but noted that using the formula in Minnesota Statutes 268B.14 would produce a more volatile fund balance due to the changing premium formula following the first year of implementation. The actuarial study noted that the alternate method would offer a smoother pattern of premium changes and fund balances which they believe would be less disruptive to employers and employees. More information on the actuarial study may be found below in Additional Information.

Additional Information

For questions about this issue brief, please contact Hannah Grunewald Noeldner (Hannah.Grunewald.Noeldner@mnsenate.gov or 651-296-2727) with fiscal questions or Carlon Doyle Fontaine (Carlon.Doyle.Fontaine@mnsenate.gov or 651-296-4395) with policy or legal questions.

To find additional information on the PFML legislation, appropriations, and estimates, please refer to the sources below.

- Laws 2023, Chapter 59 (https://www.revisor.mn.gov/laws/2023/0/Session+Law/Chapter/59/)
- Act Summary (https://assets.senate.mn/summ/chapter/2023/0/Chapter%2059.pdf)
- Chapter 59 Legislative Fiscal Tracking (https://assets.senate.mn/fiscalpol/tracking/2023/PFML-Laws-2023-Ch-59.pdf)
- Fiscal Note, SF2 – 7E: Can be found by clicking “Fiscal Notes” on SF2 bill page (https://www.revisor.mn.gov/bills/bill.php?b=Senate&f=SF0002&ssn=0&y=2023)
- Actuarial Study (https://www.lrl.mn.gov/mndocs/mandates_detail?orderid=17664)