



One Canal Plaza, Suite 1001
Portland, ME 04101-4156
USA

Tel +1 207 772 0046
Fax +1 207 772 7512

milliman.com

April 8, 2025

Evan Rowe
Deputy Commissioner, Workforce Services and Transformation
Minnesota Department of Employment and Economic Development
Great Northern Building, 180 E Fifth St., Suite 1200
St. Paul MN 55101

RE: Actuarial Analysis for the Minnesota Paid Leave Program

Dear Evan,

Thank you for asking Milliman to assist Minnesota Department of Employment and Economic Development (DEED) in developing financial projections and estimating contribution rates for the Minnesota Paid Leave insurance program. At your request, we have analyzed two new options for the Minnesota Paid Leave program that are different than the current program defined in the Minnesota Paid Leave law, as follows:

- HF1976 – The definition of family member excludes relations by affinity. The weekly benefit amount is a flat 67% of average weekly wages, rather than the 90/66/55% tiered benefit formula in the current program. The maximum benefit period is six weeks for employers with 50 or fewer employees and 12 weeks for employers with more than 50 employees within an application year, which are lower than the current program that provides 12 weeks regardless of group size up to 20 weeks combined. The small employer premium rate would apply to employers with 50 or fewer employees instead of 30 or fewer employees. The exemption for seasonal employees is extended to include individuals in hospitality employed no more than 180 days during any consecutive 52-week period (instead of 150 days) and employees in a collective bargaining agreement would be able to opt out of the program until the agreement is reached.
- HF2024 – Employers with 15 or fewer employees would be exempt from participating in the program, and the definition of seasonal employee is extended to include all individuals employed no more than 150 days during any consecutive 52-week period (the current program restricts seasonal employees to individuals who work in hospitality). Also, the effective date would be delayed to January 1, 2027. Otherwise, all benefits and provisions are the same as the current program.

We leveraged the models developed by Milliman in 2024 for analyzing the new program options. We updated the demographic assumptions in our models using more recent employment and wage data from DEED. At your request, we also updated the approach for determining premium contributions from small employers with 30 or fewer employees (HF2024) and 50 or fewer employees (HF1976) whose average wages are less than or equal to 150% of the state average wage. The other assumptions—such as morbidity, expenses, wage and employment growth, investment income, etc.—are unchanged from our prior analysis. Detailed documentation of the assumptions and modeling methods can be found in Milliman’s report dated October 27, 2023 and our subsequent letter to DEED dated February 19, 2024.

Executive Summary

We developed financial projections for HF1976 and HF2024 that are included in Appendix A of this letter. The projected contributions and contribution rates are summarized below in Tables 1.a (HF1976) and 1.b (HF2024):

Table 1.a				
Estimated Premium Contributions and Contribution Rates for HF1976				
Calendar Year	Estimated Contributions (\$ Millions)		Estimated Contribution Rates (% of Taxable Wages)	
	Qualifying Small Employers*	All Other Employers	Qualifying Small Employers*	All Other Employers
2026	\$151	\$921	0.47%	0.63%
2027	\$158	\$964	0.47%	0.63%
2028	\$165	\$1,009	0.47%	0.63%
2029	\$191	\$1,172	0.53%	0.70%
2030	\$200	\$1,226	0.53%	0.70%
2031	\$207	\$1,269	0.53%	0.70%
2032	\$215	\$1,315	0.53%	0.70%
2033	\$222	\$1,362	0.53%	0.70%

* Qualifying *Small Employers* represent employers with 50 or fewer employees whose average wages are 150% or lower than the statewide average wage.

Table 1.b				
Estimated Premium Contributions and Contribution Rates for HF2024				
Calendar Year	Estimated Contributions (\$ Millions)		Estimated Contribution Rates (% of Taxable Wages)	
	Qualifying Small Employers*	All Other Employers	Qualifying Small Employers*	All Other Employers
2026	NA	NA	NA	NA
2027	\$51	\$1,319	0.69%	0.92%
2028	\$53	\$1,381	0.69%	0.92%
2029	\$56	\$1,444	0.69%	0.92%
2030	\$61	\$1,576	0.72%	0.96%
2031	\$64	\$1,648	0.72%	0.96%
2032	\$66	\$1,707	0.72%	0.96%
2033	\$68	\$1,768	0.72%	0.96%

* Qualifying *Small Employers* represent employers with 30 or fewer employees whose average wages are 150% or lower than the statewide average wage.

The estimated contribution rates for HF1976 are lower than the contribution rates for HF2024 due primarily to the lower benefit amounts and shorter benefit periods under HF1976 and, to a lesser degree, the change in the definition of family member. We did not model the impact of changing the definition of seasonal employees nor the opt-out provision for employees under collective bargaining agreements because the data is insufficient to support this analysis.

The contribution rates for HF2024 are higher than they would be if small employers were not exempt from participating in the program because small employers typically have lower claim rates (i.e., benefit payments divided by taxable wages) than large employers, with all else equal. Therefore, we would expect Minnesota Paid Leave claim rates to be higher if employers with 15 or fewer employees were exempt from

participating in the program, which would translate to higher contribution rates. This is partially offset by the reduction in subsidies for small employers with 30 or fewer employees whose average wages are less than or equal to 150% of the state average wage.

Data, Assumptions, and Methods

We updated our Minnesota Paid Leave models from 2024 using more recent employment and wage data from DEED. At your request, we also updated the approach for projecting small employer premium rates, which affects employers with 30/50 or fewer employees whose average wages are less than or equal to 150% of the state average wage. This new approach establishes contribution rates for qualifying small employers equal to 75% of the contribution rates for all other employers. The other assumptions and modeling methods for HF1976 and HF2024 are the same as those used by Milliman for analyzing the Minnesota Paid Leave program in 2024. Detailed documentation of the assumptions and modeling methods can be found in Milliman’s report dated October 27, 2023 and our subsequent letter to DEED dated February 19, 2024.

We projected Minnesota Paid Leave experience under HF1976 and HF2024 using demographic assumptions derived from 2023 Minnesota employment data from DEED. The data for HF1976 is split between 50-or-fewer and more-than-50 employees, and the data for HF2024 excludes employers with 15 or fewer employees. We were provided data on seasonal employees for modeling HF2024; however, seasonal employee data for modeling HF1976 was unavailable. Table 2 summarizes the assumed eligible employees and taxable wages for each program option as of the benefit begin year (i.e., 2026 for HF1976 and 2027 for HF2024). At your request, we have not adjusted these assumptions for employees covered under private plans, which is consistent with our prior analysis.

Table 2 Assumed Employees and Wages in First Year of Minnesota Paid Leave		
Program Option	Eligible Employees	Taxable Wages (\$ Millions)
HF1976	2,502,740	\$178,099.5
HF2024	2,049,752	\$150,740.9

We analyzed differences in PFML claim experience by employer size using publicly available sources including the New York State Paid Family Leave Report¹ and group short term disability rating manuals. The results of this analysis suggest that small employers have lower PFML claim rates than large employers, with all else equal. Based on the results of this analysis, we have assumed that the impact of exempting employers with 15 or fewer employees from participating in the HF2024 program is a 5% increase in claim rates.

For modeling HF1976, which features different benefits depending on employer size, we developed separate projections for employers with 50 or fewer employees and employers with more than 50 employees. For each employer group, we developed morbidity assumptions that reflect the specific risk dynamics of that group based on employer size. We used these assumptions to project cash flows for each group, then we combined the projections into a single projection for HF1976 which is included in Appendix A of this letter.

We adjusted the covered employees and taxable wage assumptions in HF2024 for extending the definition of seasonal employee to include any individual employed no more than 150 days, based on seasonal employment data provided to Milliman by DEED. We did not make an explicit adjustment to the morbidity

¹ https://www.dfs.ny.gov/reports_and_publications/pfl

assumptions for extending the definition of seasonal employee because there is insufficient data to study morbidity trends among seasonal employees.

General

Milliman's work is prepared solely for the use and benefit of DEED, for the purpose of evaluating different options for the Minnesota Paid Leave insurance program. Milliman recognizes that this letter may be public records subject to disclosure to third parties. Milliman does not intend to benefit and assumes no duty or liability to any third-party recipients of the report. To the extent that this report is not subject to disclosure under applicable public records laws, DEED shall not disclose Milliman's work to any third parties without our prior written consent.

In performing this analysis, Milliman relied on publicly available data from states with PFML programs, as well as Minnesota employment and wage data from DEED. Milliman did not audit or independently verify any of the data and other information, except that we did review the data for reasonableness and consistency. To the extent that any of the data or other information is incorrect or inaccurate, the results of our analysis could be affected and may need to be revised.

The financial projections in this letter are estimates based on carefully constructed assumptions about future PFML experience in Minnesota. Actual experience, however, will almost certainly differ from those assumptions. As such, actual costs and fund balances may be either higher or lower than the amounts included in this letter.

I certify that all costs, liabilities, and other factors used or provided in this letter have been determined on the basis of actuarial assumptions and methods that are individually reasonable and which, in combination, offer our best estimate of anticipated experience of the Minnesota Paid Leave program. I also certify that the development and use of models for performing our analysis conform to the standards established in Actuarial Standards of Practice No. 56 of the Actuarial Standards Board. I further certify that, to the best of my knowledge and belief, this letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, and supporting Recommendations of the American Academy of Actuaries.

I, Paul Correia, am a consulting actuary for Milliman, Inc. and a member of the American Academy of Actuaries. I meet the qualification standards of these organizations for rendering the actuarial opinion contained herein.

* * *

Please let me know if you have any questions. I can be reached at paul.correia@milliman.com or (207) 771-1204. Thank you.

Sincerely,



Paul Correia, FSA, MAAA
Principal and Consulting Actuary

Appendix A Financial Projections

This appendix contains financial projections for the Minnesota Paid Leave program options defined under HF1976 and HF2024. The financial projections shown below depend on a variety of actuarial assumptions about future experience, including but not limited to employment and wage growth, claim experience, expenses, and investment income. It is certain that actual experience will vary from these assumptions, meaning that the program's actual fund balance will be higher or lower than the illustrated values.

Projection 1 – HF1976

	<u>2024 - 2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>
Eligible Employees	2,502,740	2,516,677	2,530,692	2,544,785	2,558,956	2,573,206	2,587,535	2,601,944	2,616,434	2,631,004	
Taxable Wages (\$ millions)	\$178,099.5	\$186,434.1	\$194,971.2	\$203,899.2	\$213,236.0	\$220,856.2	\$228,748.6	\$236,923.1	\$245,389.8	\$254,159.0	
Claims											
Family	47,715	41,856	43,352	44,029	44,274	44,521	44,769	45,018	45,269	45,521	
<u>Medical</u>	<u>85,533</u>	<u>90,310</u>	<u>93,537</u>	<u>94,998</u>	<u>95,528</u>	<u>96,059</u>	<u>96,594</u>	<u>97,132</u>	<u>97,673</u>	<u>98,217</u>	
Total	133,248	132,166	136,889	139,028	139,802	140,580	141,363	142,151	142,942	143,738	
Benefit Payments (\$ millions)											
Family	\$343.3	\$313.5	\$338.0	\$357.0	\$373.4	\$390.4	\$404.4	\$418.9	\$433.8	\$449.3	
<u>Medical</u>	<u>\$716.5</u>	<u>\$787.5</u>	<u>\$849.1</u>	<u>\$896.9</u>	<u>\$937.9</u>	<u>\$980.9</u>	<u>\$1,015.9</u>	<u>\$1,052.2</u>	<u>\$1,089.8</u>	<u>\$1,128.8</u>	
Total	\$1,059.8	\$1,101.0	\$1,187.1	\$1,253.9	\$1,311.3	\$1,371.3	\$1,420.3	\$1,471.1	\$1,523.7	\$1,578.1	
Expenses (\$ millions)											
Start-up	\$128.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Family		\$24.0	\$21.9	\$23.7	\$25.0	\$26.1	\$27.3	\$28.3	\$29.3	\$30.4	\$31.5
<u>Medical</u>		<u>\$50.2</u>	<u>\$55.1</u>	<u>\$59.4</u>	<u>\$62.8</u>	<u>\$65.7</u>	<u>\$68.7</u>	<u>\$71.1</u>	<u>\$73.7</u>	<u>\$76.3</u>	<u>\$79.0</u>
Total		\$74.2	\$77.1	\$83.1	\$87.8	\$91.8	\$96.0	\$99.4	\$103.0	\$106.7	\$110.5
Total Expenditure (\$ millions)											
Family		\$367.3	\$335.4	\$361.7	\$382.0	\$399.5	\$417.8	\$432.7	\$448.2	\$464.2	\$480.8
Medical		\$766.6	\$842.6	\$908.5	\$959.6	\$1,003.6	\$1,049.5	\$1,087.1	\$1,125.9	\$1,166.1	\$1,207.8
<u>Assistance Grants</u>		<u>\$3.1</u>	<u>\$3.1</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.3</u>	<u>\$3.3</u>	<u>\$3.3</u>	<u>\$3.3</u>	<u>\$3.3</u>
Total		\$1,137.0	\$1,181.1	\$1,273.4	\$1,344.9	\$1,406.3	\$1,470.6	\$1,523.0	\$1,577.4	\$1,633.6	\$1,691.9
Contribution Rates											
Qualifying Employers with 50 or Fewer Employees		0.47%	0.47%	0.47%	0.53%	0.53%	0.53%	0.53%	0.53%	0.53%	0.53%
All Other Employers		0.63%	0.63%	0.63%	0.70%						
Effective Overall Contribution Rate*		0.60%	0.60%	0.60%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Contributions (\$ millions)											
Qualifying Employers with 50 or Fewer Employees		\$150.5	\$157.6	\$164.8	\$191.5	\$200.2	\$207.4	\$214.8	\$222.5	\$230.4	\$238.7
<u>All Other Employers</u>		<u>\$921.3</u>	<u>\$964.5</u>	<u>\$1,008.6</u>	<u>\$1,172.0</u>	<u>\$1,225.7</u>	<u>\$1,269.5</u>	<u>\$1,314.8</u>	<u>\$1,361.8</u>	<u>\$1,410.5</u>	<u>\$1,460.9</u>
Total		\$1,071.9	\$1,122.0	\$1,173.4	\$1,363.5	\$1,425.9	\$1,476.9	\$1,529.6	\$1,584.3	\$1,640.9	\$1,699.6
Transfer from General Fund (\$ millions)	\$668.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Appropriations (\$ millions)	\$128.5	\$64.7	\$8.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Investment Income (\$ millions)	\$65.6	\$17.7	\$16.0	\$12.0	\$14.5	\$15.6	\$15.9	\$16.5	\$17.1	\$18.0	\$18.9
Fund Balance (\$ millions)	\$605.4	\$493.2	\$441.4	\$352.8	\$385.2	\$419.8	\$441.4	\$463.9	\$487.3	\$511.9	\$537.8
Fund Balance % of Total Expenditure		43%	37%	28%	29%	30%	30%	30%	31%	31%	32%

* The effective overall contribution rate represents total contributions divided by total taxable wages in every year.

Projection 2 – HF2024

	<u>2024 - 2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2035</u>	<u>2036</u>
Eligible Employees	2,049,752	2,061,167	2,072,645	2,084,187	2,095,793	2,107,464	2,119,200	2,131,001	2,142,868	2,154,801	
Taxable Wages (\$ millions)	\$150,740.9	\$157,795.1	\$165,020.8	\$172,577.3	\$180,479.9	\$186,929.5	\$193,609.5	\$200,528.3	\$207,694.4	\$215,116.5	
Claims											
Family	42,274	37,083	38,408	39,008	39,225	39,444	39,663	39,884	40,106	40,330	
<u>Medical</u>	<u>73,586</u>	<u>77,695</u>	<u>80,472</u>	<u>81,729</u>	<u>82,184</u>	<u>82,642</u>	<u>83,102</u>	<u>83,565</u>	<u>84,030</u>	<u>84,498</u>	
Total	115,859	114,778	118,880	120,737	121,409	122,086	122,765	123,449	124,137	124,828	
Benefit Payments (\$ millions)											
Family	\$444.4	\$405.8	\$437.5	\$462.1	\$483.3	\$505.4	\$523.5	\$542.2	\$561.6	\$581.7	
<u>Medical</u>	<u>\$848.1</u>	<u>\$932.2</u>	<u>\$1,005.1</u>	<u>\$1,061.6</u>	<u>\$1,110.3</u>	<u>\$1,161.1</u>	<u>\$1,202.6</u>	<u>\$1,245.6</u>	<u>\$1,290.1</u>	<u>\$1,336.2</u>	
Total	\$1,292.5	\$1,338.0	\$1,442.6	\$1,523.8	\$1,593.6	\$1,666.5	\$1,726.1	\$1,787.8	\$1,851.7	\$1,917.8	
Expenses (\$ millions)											
Start-up	\$128.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Family	\$31.1	\$28.4	\$30.6	\$32.3	\$33.8	\$35.4	\$36.6	\$38.0	\$39.3	\$40.7	
<u>Medical</u>	<u>\$59.4</u>	<u>\$65.3</u>	<u>\$70.4</u>	<u>\$74.3</u>	<u>\$77.7</u>	<u>\$81.3</u>	<u>\$84.2</u>	<u>\$87.2</u>	<u>\$90.3</u>	<u>\$93.5</u>	
Total	\$90.5	\$93.7	\$101.0	\$106.7	\$111.5	\$116.7	\$120.8	\$125.1	\$129.6	\$134.2	
Total Expenditure (\$ millions)											
Family	\$475.5	\$434.2	\$468.2	\$494.5	\$517.1	\$540.8	\$560.1	\$580.2	\$600.9	\$622.4	
Medical	\$907.5	\$997.5	\$1,075.5	\$1,136.0	\$1,188.0	\$1,242.4	\$1,286.8	\$1,332.8	\$1,380.4	\$1,429.7	
<u>Assistance Grants</u>	<u>\$1.1</u>	<u>\$1.1</u>	<u>\$1.1</u>	<u>\$1.2</u>							
Total	\$1,384.1	\$1,432.8	\$1,544.8	\$1,631.6	\$1,706.3	\$1,784.4	\$1,848.1	\$1,914.1	\$1,982.5	\$2,053.3	
Contribution Rates											
Qualifying Employers with 30 or Fewer Employees	0.69%	0.69%	0.69%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%
All Other Employers	0.92%	0.92%	0.92%	0.96%	0.96%						
Effective Overall Contribution Rate*	0.91%	0.91%	0.91%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%
Contributions (\$ millions)											
Qualifying Employers with 30 or Fewer Employees	\$51.0	\$53.4	\$55.8	\$60.9	\$63.7	\$66.0	\$68.3	\$70.8	\$73.3	\$75.9	
<u>All Other Employers</u>	<u>\$1,318.8</u>	<u>\$1,380.6</u>	<u>\$1,443.8</u>	<u>\$1,575.5</u>	<u>\$1,647.7</u>	<u>\$1,706.6</u>	<u>\$1,767.6</u>	<u>\$1,830.7</u>	<u>\$1,896.1</u>	<u>\$1,963.9</u>	
Total	\$1,369.8	\$1,433.9	\$1,499.6	\$1,636.4	\$1,711.4	\$1,772.5	\$1,835.9	\$1,901.5	\$1,969.4	\$2,039.8	
Transfer from General Fund (\$ millions)	\$668.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Appropriations (\$ millions)	\$128.5	\$64.7	\$8.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Investment Income (\$ millions)	\$68.1	\$19.6	\$20.3	\$18.2	\$21.0	\$21.8	\$21.5	\$21.5	\$21.5	\$21.7	\$22.0
Fund Balance (\$ millions)	\$607.8	\$548.5	\$561.3	\$533.7	\$558.9	\$585.2	\$594.1	\$602.8	\$611.0	\$619.0	\$626.9
Fund Balance % of Total Expenditure	40%	39%	35%	34%	34%	34%	33%	33%	32%	31%	31%

* The effective overall contribution rate represents total contributions divided by total taxable wages in every year.