

MILLIMAN REPORT

Actuarial Analysis for the Minnesota Paid Family and Medical Leave Program

Commissioned by Minnesota Department of Employment and Economic Development

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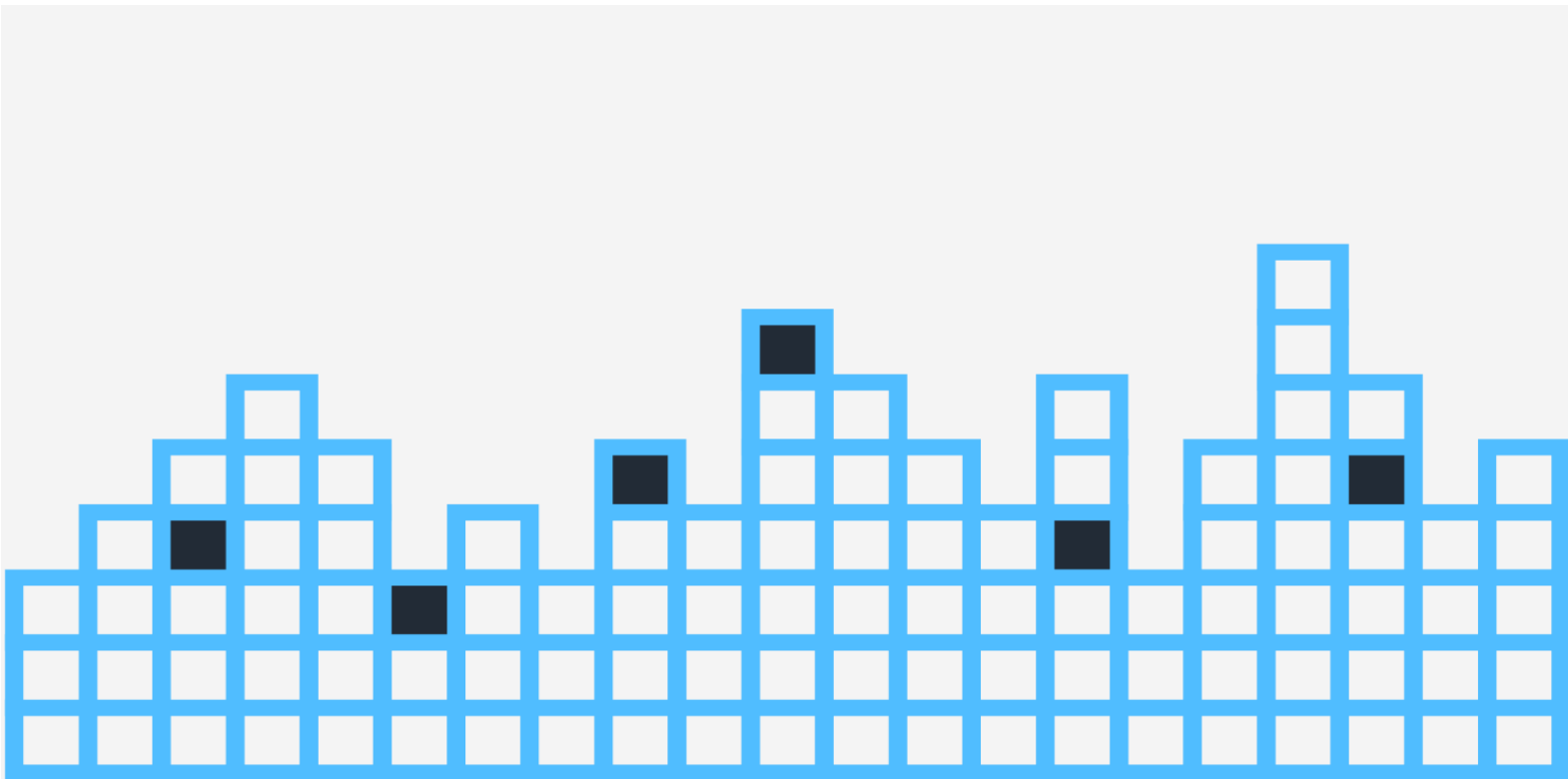


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Section 1 – Introduction

Milliman was engaged by the State of Minnesota Department of Employment and Economic Development (DEED) to perform an actuarial analysis of the Paid Family and Medical Leave (PFML) program established in Minnesota under Minnesota Statutes, Chapter 268B. Our analysis focused on the expected costs of paying benefits to covered workers and maintaining solvency of the Minnesota PFML fund. We have performed the following specific tasks on this project:

- We researched Minnesota PFML benefits, provisions, and definitions under the law;
- We analyzed the employment data provided to Milliman by DEED, which was used to project eligible employees and covered wages;
- We researched PFML claim experience in states with mandated benefits, and other information from a variety of sources including disability rating manuals from insurance carriers and reports from the US Bureau of Labor Statistics and US Census Bureau;
- We developed morbidity assumptions for estimating Minnesota PFML claim costs;
- We estimated contribution rates by performing a funding analysis of the Minnesota PFML program; and
- We developed financial projections of estimated experience for the Minnesota PFML program from 2026 through 2035.

This report contains the results of our research and analysis. Section 2 contains estimated contribution rates based on two different rating methods:

1. **268B** - The 2026 contribution rate is 0.70% of taxable wages and the premium formula defined in Chapter 268B was used to compute contribution rates for 2027 and beyond; and
2. **Alternative** - We estimated contribution rates by targeting a higher fund balance in 2026, because there is greater uncertainty when the program begins, and additional margin seems prudent when benefits become effective. We adjusted the contribution rates in later years to maintain a fund ratio (i.e., ratio of fund balance to total expenditure from previous 12 months) of approximately 25%. This approach produces a less volatile pattern of contribution rates for employers and employees than the premium formula defined in Chapter 268B. Note that this approach includes two policy changes: (1) the initial contribution rate is greater than 0.70% and (2) a premium formula was not used to compute rates in future years. Some states use similar approaches for setting rates (e.g., New York Department of Financial Services establishes paid family leave rates based on actuarially sound methods rather than a prescribed formula), as described in the next section of this report.

Section 3 contains an overview of PFML funding mechanisms in other states with mandated benefits, as well as a funding analysis for the Minnesota PFML program. Section 4 contains

documentation of the data, assumptions, and methods we used for performing the analysis. Appendix A provides the appropriations we assumed in our funding analysis.

Data Reliance

In performing the research and analysis for this project, Milliman relied on publicly available data from PFML programs in states with mandated benefits, as well as Minnesota employment statistics and forecasts 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.

Distribution

Milliman's work is prepared solely for the use and benefit of DEED. Milliman recognizes that this report 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.

Variability of Results

The projections contained herein are estimates based on carefully constructed assumptions. Actual experience, however, will almost certainly differ from those assumptions. As such, actual costs may be either higher or lower than the amounts illustrated in this report.

Certification

I certify that all costs, liabilities, and other factors used or provided in this report 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 FAMI 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 report 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.

Qualifications

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 opinions contained herein.

Section 2 – Estimated Contribution Rates

Chapter 268B includes specific funding mechanisms for the Minnesota PFML program. A summary of these mechanisms is provided below:

- For an employer participating in both family and medical benefit programs, the initial contribution rate is 0.70% of taxable wages in 2026;
- For an employer participating in only the medical benefit program and with an approved private plan for the family benefit program, the initial contribution rate is 0.40% of taxable wages in 2026;
- For an employer participating in only the family benefit program and with an approved private plan for the medical benefit program, the initial contribution rate is 0.30% of taxable wages in 2026;
- Beginning January 1, 2027, and by July 31 of each year thereafter, the commissioner must adjust the annual premium rates using the following formula:
 - 1) Multiply 1.45 times the amount disbursed from the family and medical benefit insurance account for the 52-week period ending September 30 of the prior year;
 - 2) Subtract the amount in the family and medical benefit insurance account on that September 30 from the resulting figure;
 - 3) Divide the resulting figure by the total wages in covered employment of employees of employers without approved private plans under section 268B.10 for either the family or medical benefit program. For employers with an approved private plan for either the medical benefit program or the family benefit program, but not both, count only the proportion of wages in covered employment associated with the program for which the employer does not have an approved private plan;
 - 4) Round the resulting figure down to the nearest one-hundredth of one percent; and

In no year shall the annual premium rate exceed 1.20% of taxable wages.

- The commissioner must apportion the premium rate between the family and medical benefit programs based on the relative proportion of expenditures for each program during the preceding year.
- The commissioner of employment and economic development must contract with a qualified independent actuarial consultant to conduct an actuarial study of the family and medical leave premium rate, premium rate structure, weekly benefit formula, duration of benefits, fund reserve, and other components as necessary to determine an actuarially sound rate and future rate-setting mechanism of the family and medical benefit insurance program created in this act.
- If the actuarial study indicates that the premium rate in Minnesota Statutes, section 268B.14, subdivision 7, is not actuarially sound, the commissioner, in consultation with the commissioner of management and budget, must adjust the premium rate to make the

program actuarially sound, subject to the limitations in Minnesota Statutes, section 268B.14, subdivision 7, paragraph (b).

We have estimated contribution rates for the Minnesota PFML program based on two different approaches, described below:

- **268B** – The estimated contribution rates are based on the funding mechanisms described above; and
- **Alternative** – The estimated contribution rate is 0.78% for 2026 through 2028 and 0.83% for 2029 and beyond. We established these rates by targeting a higher fund balance in 2026 when benefits begin, and by targeting an ultimate fund ratio of approximately 25% in later years in lieu of using a premium formula. We also took into consideration the rate pattern because we felt that a smoother pattern would be preferable for employers and employees. This approach includes two policy changes: (1) the initial contribution rate is greater than 0.70% and (2) a premium formula was not used to compute rates in future years. Although the premium formula could have been adjusted to target an ultimate fund ratio of 25% (e.g., by reducing the factor of 145% to a lower value), we used actuarial sound methods rather than a premium formula for computing the Alternative rates.

The estimated contribution rates are provided in Tables 1A (overall contribution rates), 1B (family contribution rates), and 1C (medical contribution rates) below.

Table 1A								
Estimated Overall Contribution Rates for Minnesota PFML Program								
Taxable Wages: OASDI								
Scenario	2026	2027	2028	2029	2030	2031	2032	2033+
268B	0.70%	0.92%	0.78%	0.86%	0.84%	0.84%	0.84%	0.83%
Alternative	0.78%	0.78%	0.78%	0.83%	0.83%	0.83%	0.83%	0.83%

Table 1B								
Estimated Family Contribution Rates for Minnesota PFML Program								
Taxable Wages: OASDI								
Scenario	2026	2027	2028	2029	2030	2031	2032	2033+
268B	0.30%	0.30%	0.26%	0.28%	0.27%	0.27%	0.28%	0.27%
Alternative	0.26%	0.26%	0.26%	0.27%	0.27%	0.27%	0.27%	0.27%

Table 1C								
Estimated Medical Contribution Rates for Minnesota PFML Program								
Taxable Wages: OASDI								
Scenario	2026	2027	2028	2029	2030	2031	2032	2033+
268B	0.40%	0.62%	0.53%	0.58%	0.56%	0.56%	0.57%	0.56%
Alternative	0.52%	0.52%	0.52%	0.56%	0.56%	0.56%	0.56%	0.56%

The 268B contribution rates increase sharply in 2027, which is the first year the rates are determined from the statutory premium formula. The premium formula was also used to compute rates in 2028 and beyond, which are expected to maintain a fund ratio of approximately 40% in later years. The next section of this report contains additional detail on projected fund balances and fund ratios for this scenario and the Alternative scenario.

The contribution rates for the Alternative scenario are smoother than the 268B contribution rates because the rates are not based on a premium formula, but rather a methodology that takes into consideration the fund balances in the early years and later years as the program phases in, as well as the rate patterns over time. We established the Alternative contribution rates by targeting a higher fund balance in 2026 than 268B, and maintaining a fund ratio of approximately 25% in later years. We used a 25% target, in part, based on funding policies in other states with PFML mandates, and on the target surplus levels reported by insurance companies for short-term disability insurance products.

The 268B contribution rates for family and medical benefits exhibit volatility between 2026 and 2029 due to the premium formula and because the legislation establishes an initial rate of 0.30% for family benefits and 0.40% for medical benefits in 2026, and the rates are calibrated in 2027 and beyond based on the relative proportion of expenditures for each program during the preceding year. We have assumed approximately one-third of total expenditure for family benefits and two-thirds of total expenditure for medical benefits in 2027 and beyond.

The Alternative contribution rates for family and medical benefits are smoother than 268B because we did not use the premium formula to estimate contribution rates, and because the rates in 2026 are different than the prescribed 2026 contribution rates under the law.

Section 3 – Funding Analysis

This section contains an overview of the PFML funding policies in states with mandated benefits, as well as a funding analysis for the Minnesota PFML program based on the estimated contribution rates from the previous section.

3.1 PFML Funding Policies

PFML funding policies vary across states with paid leave mandates. In some states, the policies include specific targets or minimum requirements for the PFML fund. Some policies include specific formulas for calculating contribution rates whereas other programs have less stringent requirements for setting rates. For example, the target fund ratio in California is 25% to 50% of the previous year's expenditure, and contribution rates are determined annually from a premium formula that applies a factor of 1.45 to the previous year's expenditure. A summary of the PFML funding policies in states with paid leave mandates is provided below:

California¹

- 2023 contribution rate is 0.9% of taxable wages.
- Taxable wages are capped at \$153,164 in 2023, adjusted annually.
- Contribution rate formula:

$$(145\% \times \text{Previous Year Disbursements} - \text{Fund Balance}) / \text{Taxable Wages}$$
- Contribution rate is capped at 1.5% of taxable wages.
- Rate reductions capped at 0.2%.
- Rates can be adjusted by +/- 0.1% if deemed necessary to maintain funding objectives.
- Target fund ratio of 25% to 50% of previous year's disbursements.

New York²

- 2023 contribution rates are 0.5% of wages up to \$0.60 per week for medical and 0.455% of taxable wages for family.
- Taxable wages are capped at \$87,786 in 2023, adjusted annually.
- Minimum fund balance of \$12 million.
- New York Department of Financial Services sets the paid family leave contribution rate annually based on historical experience and "sound actuarial principles".

New Jersey³

- 2023 contribution rates are in between 0.1% and 0.75% of taxable wages for medical, and 0.06% of taxable wages for family.
- Taxable wages are capped at \$41,100 for the employer and \$156,800 for the employee.
- 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.

¹ Overview of California's Paid Family Leave Program, State of California Employment Development Department, 2022

² New York Workers' Compensation Law, Article 9 Disability Benefits, Sections 209 and 214

³ New Jersey Temporary Disability Benefits Law, Section 43 :21-46. State disability benefits fund

Massachusetts⁴

- 2023 contribution rate is 0.63% of taxable wages.
- Taxable wages are capped at OASDI wage limit.
- State sets PFML contribution rate annually based on historical experience and a target fund level of no less than 140% of the previous fiscal year's expenditure for benefits and administration.

Washington⁵

- 2023 contribution rate is 0.80% of taxable wages.
- Taxable wages are capped at OASDI wage limit.
- Contribution rate is capped at 1.2% of taxable wages.
- Target fund ratio is three months of expected expenditure.
- State sets premium rate such that total contributions equal to 140% of the preceding year's total expenditure minus the fund balance as of December 31st of the preceding year.

Colorado⁶

- 2023 contribution rate is 0.90% of taxable wages.
- Taxable wages are capped at OASDI wage limit.
- State sets premium rate such that total 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.

Connecticut⁷

- 2023 contribution rate is 0.50% of taxable wages.
- Taxable wages are capped at OASDI wage limit.
- The state may revise the contribution rate provided the revised rate shall not exceed 0.5% and shall be sufficient to ensure that the trust fund shall achieve and maintain a target fund balance established by the Authority (undefined in statute).

Oregon⁸

- 2023 contribution rate is 1.00% of taxable wages.
- Taxable wages are capped at \$132,900 in 2023, adjusted annually.
- For determining future contribution rates, estimates will include consideration of Oregon PFMLI program data and other relevant data sources, including but not limited to, other Oregon state agencies, other states' agencies, and federal agencies.

⁴ Massachusetts Laws c.175M Section 7, Family and Employment Security Trust Fund

⁵ Washington Legislation RCW 50A.10.030 Premiums-Solvency surcharge-Limitation on local regulation

⁶ Colorado Paid Family and Medical Leave Insurance Act. Sec. 8-13.3-507, Premiums.

⁷ https://www.cga.ct.gov/current/pub/chap_557.htm#sec_31-49e

⁸ Oregon Paid Leave Or. Admin. R. 471-070-3010

3.1 Minnesota PFML Funding Analysis

We developed financial projections for the Minnesota PFML program from January 1, 2026 through December 31, 2035, based on the contribution rates included in Section 2 of this report. We developed separate projections corresponding to (1) the funding mechanisms defined in Chapter 268B and (2) the Alternative contribution rates shown above, each of which include the following items:

- **Eligible Employees** – Projection of eligible employees that assumes 0.56% annual employment growth, based on Minnesota employment forecasts from 2020 to 2030 provided to Milliman by DEED. The projections assume all Minnesota employers provide PFML benefits through the state fund. Although employers will have the option to provide benefits through private insurance plans, we do not have sufficient detail on how these options will be structured to estimate the proportion of employers who would opt out of the state plan.
- **Taxable Wages** – Projection of taxable wages based on the Old-Age, Survivors, and Disability Insurance (OASDI) taxable wage base. The projection was developed using Minnesota wage data from 2022 provided to Milliman by DEED, projected based on wage growth forecasts from the US Social Security Administration.
- **Claims** – Projection of estimated claims approved for benefits between 2026 and 2035, for family leave, medical leave, and in total. The projection assumes claim incidence rates will increase gradually during the initial years as the program phases in, a trend that we have observed in other states with newly adopted PFML programs. The projection also assumes children born, adopted, or fostered in 2025 will be eligible for bonding benefits in 2026, consistent with Chapter 268B.
- **Benefit Payments (\$ millions)** – Projection of estimated benefit payments between 2026 and 2035 for family leave, medical leave, and in total. The expected benefit payments are based on the PFML benefit design established under the PFML law in Minnesota. The estimated benefit payments for family claims are higher in 2026 than 2027 due to the backlog of bonding claims for children born, fostered, or adopted in 2025.
- **Expenses (\$ millions)** – Projection of start-up and ongoing expenses for administering the PFML program. We assumed that start-up costs will be covered by the appropriations in 2024 and 2025 as defined in Chapter 268B. The projection of ongoing administrative expenses represents 7% of benefit payments in every year, based on the Administrative Costs provision in Section 268B.17. The 7% assumption is in line with expense ratios in other states with mandated benefits.
- **Total Expenditure (\$ millions)** – Projection of estimated claim costs including benefit payments, administrative expenses, and assistance grants.
- **Contribution Rate** – Projection of estimated contribution rates for the 268B and Alternative scenarios. The 268B contribution rates are based on the funding mechanisms in statute and include an initial rate of 0.70% of taxable wages and a premium formula for determining the contribution rate in future years. The premium formula defined in statute includes a factor of 1.45 applied to total expenditure. In the Alternative projection, an initial

contribution rate of 0.78% is held for three years, then increased to 0.83% in future years. These rates are expected to increase fund balances in early years relative to 268B, and achieve an ultimate fund ratio of 25% in later years.

- **Contributions (\$ millions)** – Projection of estimated contributions based on the estimated contribution rates and the assumed taxable wages. The contributions assume that employers with fewer than 30 employees will be exempt from paying the employer portion of premium, per Section 286B.14 Subdivision 5.
- **Transfer from General Fund (\$ millions)** – Projection of \$668,321,000 transferred in fiscal year 2024 from the general fund to the family and medical benefit insurance account, per Article 3, Section 12. No other transfers were projected.
- **Appropriations (\$ millions)** – Projection of the appropriations to various agencies per Article 3, Sections 2 – 11 and 13. Appendix A of this report contains documentation of the appropriations we included in the projection.
- **Investment Income (\$ millions)** – Projection of estimated income on assets in the fund, based on the US Treasury one-year forward curve as of December 31, 2022. Considering the shape of the December 31, 2022 yield curve, and because the 3-month and one-year rates are close in magnitude, we used the one-year forward curve for projection purposes. The impact of using a 3-month forward curve instead is minor.
- **Fund Balance (\$ millions)** – Projection of end-of-year fund balances equal to the beginning-of-year fund balance plus the contributions in that year, minus expenditure and appropriations in that year, plus the assumed investment income.
- **Fund Ratio** – Ratio of the end-of-year fund balance to total expenditure from the preceding twelve months.

The projected fund balances in the 268B scenario are volatile in the initial years due to the 0.70% contribution rate in 2026 and premium formula in 2027 and beyond. The premium formula produces an ultimate fund ratio of approximately 40%.

The projected fund balances in the Alternative scenario are higher in 2026 than 268B because the contribution rate is 0.78% in that year. We set the Alternative contribution rates by targeting a higher fund balance in 2026, because there is greater uncertainty when the program begins and additional margin seems prudent when benefits become effective. The contribution rate increases to 0.83% in 2029 and beyond which is expected to maintain a fund ratio of approximately 25%. This approach produces a smoother pattern than the premium formula defined in Chapter 268B, which we believe would be less disruptive to employers and employees.

The financial projections shown below depend on a variety of actuarial assumptions about future experience, including but not limited to employment and wage growth, PFML claim experience, expenses, and investment income. It is nearly 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.

Financial Projection Based on Initial Rate of 0.70% and 268B Premium Formula in Future Years

	<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	2,451,776	2,465,430	2,479,159	2,492,965	2,506,847	2,520,807	2,534,845	2,548,961	2,563,155	2,577,428	
Taxable Wages (\$ millions)	\$174,693.8	\$182,869.0	\$191,242.8	\$200,000.1	\$209,158.4	\$216,632.8	\$224,374.4	\$232,392.6	\$240,697.3	\$249,298.8	
Claims											
Family	47,611	41,764	43,257	43,933	44,177	44,423	44,671	44,920	45,170	45,421	
<u>Medical</u>	<u>80,728</u>	<u>85,236</u>	<u>88,282</u>	<u>89,661</u>	<u>90,161</u>	<u>90,663</u>	<u>91,168</u>	<u>91,675</u>	<u>92,186</u>	<u>92,699</u>	
Total	128,338	127,001	131,539	133,594	134,338	135,086	135,839	136,595	137,356	138,120	
Benefit Payments (\$ millions)											
Family	\$485.2	\$443.1	\$477.7	\$504.6	\$527.7	\$551.9	\$571.6	\$592.0	\$613.2	\$635.1	
<u>Medical</u>	<u>\$828.0</u>	<u>\$910.1</u>	<u>\$981.3</u>	<u>\$1,036.5</u>	<u>\$1,083.9</u>	<u>\$1,133.6</u>	<u>\$1,174.1</u>	<u>\$1,216.0</u>	<u>\$1,259.5</u>	<u>\$1,304.5</u>	
Total	\$1,313.2	\$1,353.2	\$1,459.0	\$1,541.1	\$1,611.6	\$1,685.4	\$1,745.7	\$1,808.1	\$1,872.7	\$1,939.6	
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		\$34.0	\$31.0	\$33.4	\$35.3	\$36.9	\$38.6	\$40.0	\$41.4	\$42.9	\$44.5
<u>Medical</u>		<u>\$58.0</u>	<u>\$63.7</u>	<u>\$68.7</u>	<u>\$72.6</u>	<u>\$75.9</u>	<u>\$79.3</u>	<u>\$82.2</u>	<u>\$85.1</u>	<u>\$88.2</u>	<u>\$91.3</u>
Total		\$91.9	\$94.7	\$102.1	\$107.9	\$112.8	\$118.0	\$122.2	\$126.6	\$131.1	\$135.8
Total Expenditure (\$ millions)											
Family		\$519.2	\$474.1	\$511.2	\$539.9	\$564.7	\$590.5	\$611.6	\$633.5	\$656.1	\$679.6
Medical		\$886.0	\$973.8	\$1,050.0	\$1,109.0	\$1,159.8	\$1,212.9	\$1,256.3	\$1,301.2	\$1,347.7	\$1,395.8
<u>Assistance Grants</u>		<u>\$3.0</u>	<u>\$3.0</u>	<u>\$3.1</u>	<u>\$3.1</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.3</u>
Total		\$1,408.2	\$1,450.9	\$1,564.2	\$1,652.1	\$1,727.6	\$1,806.6	\$1,871.1	\$1,937.8	\$2,007.0	\$2,078.6
Contribution Rates											
Family		0.30%	0.30%	0.26%	0.28%	0.27%	0.27%	0.28%	0.27%	0.27%	0.27%
<u>Medical</u>		<u>0.40%</u>	<u>0.62%</u>	<u>0.53%</u>	<u>0.58%</u>	<u>0.56%</u>	<u>0.56%</u>	<u>0.57%</u>	<u>0.56%</u>	<u>0.56%</u>	<u>0.56%</u>
Total		0.70%	0.92%	0.78%	0.86%	0.84%	0.84%	0.84%	0.83%	0.83%	0.83%
Contributions (\$ millions)		\$1,223.2	\$1,687.3	\$1,499.7	\$1,710.2	\$1,756.2	\$1,812.0	\$1,895.6	\$1,937.6	\$2,007.1	\$2,078.7
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)	\$51.8	\$12.7	\$21.9	\$19.0	\$24.0	\$25.8	\$26.1	\$27.6	\$28.2	\$29.2	\$30.2
Fund Balance (\$ millions)	\$591.6	\$354.6	\$604.2	\$558.0	\$639.4	\$693.1	\$723.9	\$775.5	\$802.8	\$831.4	\$861.1
Fund Balance % of Total Expenditure		25%	42%	36%	39%	40%	40%	41%	41%	41%	41%

Financial Projection Based on Alternative Contribution Rates

	<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	2,451,776	2,465,430	2,479,159	2,492,965	2,506,847	2,520,807	2,534,845	2,548,961	2,563,155	2,577,428	
Taxable Wages (\$ millions)	\$174,693.8	\$182,869.0	\$191,242.8	\$200,000.1	\$209,158.4	\$216,632.8	\$224,374.4	\$232,392.6	\$240,697.3	\$249,298.8	
Claims											
Family	47,611	41,764	43,257	43,933	44,177	44,423	44,671	44,920	45,170	45,421	
<u>Medical</u>	<u>80,728</u>	<u>85,236</u>	<u>88,282</u>	<u>89,661</u>	<u>90,161</u>	<u>90,663</u>	<u>91,168</u>	<u>91,675</u>	<u>92,186</u>	<u>92,699</u>	
Total	128,338	127,001	131,539	133,594	134,338	135,086	135,839	136,595	137,356	138,120	
Benefit Payments (\$ millions)											
Family	\$485.2	\$443.1	\$477.7	\$504.6	\$527.7	\$551.9	\$571.6	\$592.0	\$613.2	\$635.1	
<u>Medical</u>	<u>\$828.0</u>	<u>\$910.1</u>	<u>\$981.3</u>	<u>\$1,036.5</u>	<u>\$1,083.9</u>	<u>\$1,133.6</u>	<u>\$1,174.1</u>	<u>\$1,216.0</u>	<u>\$1,259.5</u>	<u>\$1,304.5</u>	
Total	\$1,313.2	\$1,353.2	\$1,459.0	\$1,541.1	\$1,611.6	\$1,685.4	\$1,745.7	\$1,808.1	\$1,872.7	\$1,939.6	
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	\$34.0	\$31.0	\$33.4	\$35.3	\$36.9	\$38.6	\$40.0	\$41.4	\$42.9	\$44.5	
<u>Medical</u>	<u>\$58.0</u>	<u>\$63.7</u>	<u>\$68.7</u>	<u>\$72.6</u>	<u>\$75.9</u>	<u>\$79.3</u>	<u>\$82.2</u>	<u>\$85.1</u>	<u>\$88.2</u>	<u>\$91.3</u>	
Total	\$91.9	\$94.7	\$102.1	\$107.9	\$112.8	\$118.0	\$122.2	\$126.6	\$131.1	\$135.8	
Total Expenditure (\$ millions)											
Family	\$519.2	\$474.1	\$511.2	\$539.9	\$564.7	\$590.5	\$611.6	\$633.5	\$656.1	\$679.6	
Medical	\$886.0	\$973.8	\$1,050.0	\$1,109.0	\$1,159.8	\$1,212.9	\$1,256.3	\$1,301.2	\$1,347.7	\$1,395.8	
<u>Assistance Grants</u>	<u>\$3.0</u>	<u>\$3.0</u>	<u>\$3.1</u>	<u>\$3.1</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.2</u>	<u>\$3.3</u>
Total	\$1,408.2	\$1,450.9	\$1,564.2	\$1,652.1	\$1,727.6	\$1,806.6	\$1,871.1	\$1,937.8	\$2,007.0	\$2,078.6	
Contribution Rates	0.78%	0.78%	0.78%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%
Contributions (\$ millions)	\$1,360.5	\$1,424.2	\$1,489.4	\$1,667.1	\$1,743.5	\$1,805.8	\$1,870.3	\$1,937.1	\$2,006.3	\$2,078.0	
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)	\$51.8	\$17.8	\$17.4	\$14.2	\$16.9	\$18.0	\$18.0	\$18.4	\$18.7	\$19.4	\$20.0
Fund Balance (\$ millions)	\$591.6	\$497.0	\$479.0	\$417.8	\$449.0	\$482.1	\$498.6	\$515.5	\$532.9	\$550.9	\$569.7
Fund Balance % of Total Expenditure	35%	33%	27%	27%	28%	28%	28%	27%	27%	27%	27%

Section 4 – Data, Assumptions, and Analytical Methods

We obtained Minnesota employment data from 2022 from DEED, which was used to develop demographic assumptions for eligible employees and covered wages in 2026 and beyond. We also researched Minnesota employment data from the US Census Bureau, which includes distributions of workers and wages split by age and gender. We used these distributions to segment the employment data from DEED by age and gender. We assumed employment growth of 2.2% between 2022 and 2026 based on employment forecasts from DEED, and 16.7% wage growth between 2022 and 2026 based on Minnesota compensation rates as of October 1, 2023⁹ and wage growth forecasts from the Social Security Administration¹⁰. Table 2 below shows the demographic mix of eligible employees assumed in 2026, when PFML benefits begin:

Age	Eligible Employees		Average Monthly Wage	
	Female	Male	Female	Male
Less than 25	189,468	175,331	\$2,471	\$3,382
25 - 34	253,142	254,451	\$5,506	\$7,144
35 - 44	268,772	272,023	\$6,932	\$9,274
45 - 54	233,463	229,810	\$7,291	\$10,495
55 - 64	211,668	204,717	\$6,438	\$9,913
65 and above	76,338	82,593	\$4,153	\$6,166
Total	1,232,852	1,218,925	\$5,765	\$8,109

The demographic assumptions shown above include self-employed workers and independent contractors who are expected to participate in the Minnesota PFML program. We assumed that 5% of self-employed workers and independent contractors would participate in the program, based on participation rates in other states with mandated benefits, as shown below in Table 3:

PFML Jurisdiction	Number of Self-Employed Opt-ins	Number of Non-employer Small Businesses	Approximate Take-up Rates
California	1,945	3,458,667	0.06%
New York	70,000	1,806,664	3.87%
Massachusetts	42,631	576,528	7.39%
Washington	2,907	500,954	0.58%
Washington, D.C.	73	61,721	0.12%
Connecticut	3,364	292,009	1.15%
Total	120,920	6,696,543	1.81%

⁹ <https://www.dli.mn.gov/sites/default/files/pdf/combrates.pdf>

¹⁰ <https://www.ssa.gov/oact/TR/TRassum.html>

¹¹ Self-Employed Workers' Access to State Paid Leave Programs in 2023, Center for American Progress, August 10, 2023.

We developed average weekly benefit amount assumptions that vary by age and gender based on the assumed wages of eligible employees, and the PFML benefit formula in Chapter 268B which provides 90% of weekly wages up to 50% of the state average weekly wage (SAWW), plus 66% of wages above 50% and below 100% of SAWW, plus 55% of wages above 100% of SAWW, up to a maximum weekly benefit amount of 100% of SAWW. The assumed weekly benefit amounts for 2026 are shown in Table 4 below by age and gender.

Table 4		
Assumed 2026 Average Weekly Benefit Amounts		
By Age and Gender		
Age	Female	Male
Less than 25	\$513	\$688
25 - 34	\$1,011	\$1,238
35 - 44	\$1,211	\$1,443
45 - 54	\$1,257	\$1,443
55 - 64	\$1,149	\$1,443
65 and above	\$805	\$1,112

We developed morbidity assumptions for estimating Minnesota PFML claims and benefit payments. These assumptions include claim incidence rates and average claim durations, and are based on historical PFML claim experience in states with mandated benefits from 2021 and 2022, adjusted for differences in benefit design between Minnesota and the other states, such as waiting period, replacement ratio, definition of family member, and qualifying event. We also developed adjustment factors for differences in industry and geographic risk between Minnesota and the other states. The maternity and bonding incidence rates were adjusted for differences in birth rates between Minnesota and the other states. We assumed incidence rates would increase from 2026 through 2030 as the PFML program phases in and benefit awareness increases, based on historical PFML claim patterns observed in New York (2018) and Washington (2020).

The morbidity assumptions vary by age and gender, consistent with the assumed eligible employees and average benefit amounts in Tables 8 and 9 above. We used these assumptions to calculate expected PFML benefit payments for every age/gender combination, as follows:

$$\begin{aligned} \text{Expected Benefit Payments} &= \text{Expected number of claims} \\ &\quad \times \text{Expected claim duration} \\ &\quad \times \text{Assumed average weekly benefit amount} \end{aligned}$$

where the expected number of claims was calculated by applying our incidence rate assumptions to the assumed eligible employees. The following table shows the expected PFML benefit payments in 2026 by age and gender:

Age	Female	Male	Total
Less than 25	\$22,480,872	\$11,672,994	\$34,153,866
25 - 34	\$315,760,310	\$133,128,115	\$448,888,426
35 - 44	\$235,233,073	\$128,651,285	\$363,884,358
45 - 54	\$122,283,087	\$78,719,721	\$201,002,808
55 - 64	\$113,869,618	\$101,510,612	\$215,380,230
65 and above	\$23,051,907	\$26,873,248	\$49,925,155
Total	\$832,678,867	\$480,555,976	\$1,313,234,843

The estimated benefit payments shown above are skewed toward younger female workers, in part, because they include backlog bonding claims, and because bonding incidence rates are highest for younger female workers. The medical incidence rate assumptions are also highest for younger female workers due to maternity claims.

We developed growth factors for projecting eligible employees, wages, and PFML benefit payments beyond 2026 based on employment growth forecasts from DEED, and wage growth forecasts from the Social Security Administration¹². The assumed annual growth factors are provided in Table 6 below:

Year	Employment	Wages
2027	0.56%	4.10%
2028	0.56%	4.00%
2029	0.56%	4.00%
2030	0.56%	4.00%
2031	0.56%	3.00%
2032	0.56%	3.00%
2033	0.56%	3.00%
2034	0.56%	3.00%

The estimated contribution rates in this report are relatively insensitive to wage growth rates, because if wages grow faster, then benefits will also grow faster and the expected impact on contribution rates would be relatively small.

We estimated the costs associated with assistance grants for employers with fewer than 30 employees by reducing our incidence rate assumptions by a factor of 0.85 for these employers, based on claim experience from other PFML programs. We assumed 5% of employers would hire part time workers to cover workers on leave, based on statistics from the Bureau of Labor Statistics¹³, and we assumed that 75% of qualifying employers would apply for assistance grants (although experience from Washington PFML suggests a lower percentage of qualifying

¹² <https://www.ssa.gov/oact/TR/TRassum.html>

¹³ <https://www.bls.gov/opub/mlr/2021/article/temp-help.htm>

employers apply for assistance grants, this may due to the requirement in Washington that employers who receive assistance grants must pay the employer contribution for two years, otherwise they are exempt from paying the employer contribution). The following table provides additional detail on the projection of Minnesota PFML assistance grants:

Year	Expected Claims at Qualifying Employers (A)	% Qualifying Employers Hiring PT Workers (B)	% Qualifying Employers Applying for Grant (C)	Assistance Grant Amount (D)	Estimated Cost (A x B x C x D)
2026	26,871	5%	75%	\$3,000	\$3,023,019
2027	26,592	5%	75%	\$3,000	\$2,991,597
2028	27,543	5%	75%	\$3,000	\$3,098,600
2029	27,974	5%	75%	\$3,000	\$3,147,112
2030	28,131	5%	75%	\$3,000	\$3,164,735
2031	28,289	5%	75%	\$3,000	\$3,182,458
2032	28,447	5%	75%	\$3,000	\$3,200,280
2033	28,606	5%	75%	\$3,000	\$3,218,201
2034	28,766	5%	75%	\$3,000	\$3,236,223
2035	28,928	5%	75%	\$3,000	\$3,254,346

We used employment data from DEED to estimate the impact of the small business wage exclusion on contribution rates, which applies to employers with fewer than 30 workers per Section 286B.14 Subdivision 5. We estimated 13% of total wages would qualify for the exemption, and we assumed that the exempt wages only apply to the employer (i.e., we assumed employers with fewer than 30 workers would still deduct the employee portion of premium from workers' wages).

We assumed administrative expenses equal to 7% of estimated benefit payments in every year, based on the provisions of Section 268B.17. We also assumed that \$128,537,000 million in appropriations for 2024 and 2025 will be used to cover start-up and implementation costs, per Article 3, Sections 2 – 11 and 13. In addition, we assumed a transfer of \$668,321,000 million in fiscal year 2024 from the general fund to the Minnesota PFML fund, per Article 3, Section 12, from which the appropriations were deducted.

We developed assumptions for projecting investment income on assets in the fund based on the US Treasury one-year forward curve as of December 31, 2022. The following interest rate assumptions were applied to fund balances to estimate investment income on assets in the fund:

Table 8	
Interest Rate Assumptions	
Year	Interest Rate
2026	3.71%
2027	3.76%
2028	3.53%
2029	3.90%
2030	3.87%
2031	3.75%
2032	3.69%
2033	3.64%
2034	3.64%
2035	3.64%

Appendix A – Assumed Appropriations

The table below contains the appropriations assumed in our analysis, based on Article 3, Sections 2 – 11 and 13. The values in the last column represent annual appropriations assumed in 2028 through 2035.

Agency	2024	2025	2026	2027	2028 +
Department of Employment and Economic Development	\$50,938,000	\$71,357,000	\$40,544,000	\$5,000,000	\$0
Department of Labor and Industry	\$601,000	\$374,000	\$366,000	\$0	\$0
Department of Commerce	\$376,000	\$316,000	\$64,000	\$0	\$0
Minnesota Management and Budget	\$0	\$118,000	\$45,000	\$45,000	\$45,000
Department of Human Services	\$2,649,000	\$0	\$530,000	\$530,000	\$530,000
Secretary of State	\$384,000	\$4,000	\$77,000	\$77,000	\$77,000
Supreme Court	\$15,000	\$15,000	\$0	\$0	\$0
Legislature	\$0	\$18,000	\$0	\$0	\$0
University of Minnesota	\$0	\$1,372,000	\$0	\$0	\$0
HCBS Workforce Incentive Fund	\$0	\$0	\$20,000,000	\$0	\$0
Enterprise Costs Base Establishment	\$0	\$0	\$3,049,000	\$3,049,000	\$0
Total	\$54,963,000	\$73,574,000	\$64,675,000	\$8,701,000	\$652,000



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