

# LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY COMMITTEE SUBSTITUTE FOR

**ASSEMBLY, No. 873**

**STATE OF NEW JERSEY**

**213th LEGISLATURE**

DATED: APRIL 11, 2008

## SUMMARY

- Synopsis:** Extends TDI to provide family leave benefits for workers caring for sick family members, newborn and newly adopted children.
- Type of Impact:** Expenditure increase offset by revenue increase in the newly created Family Temporary Disability Leave Account within the State disability benefits fund. No impact on the State General Fund.
- Agencies Affected:** Department of Labor and Workforce Development.

### Office of Legislative Services Estimate\*

<b>Fiscal Impact</b>	<b>Calendar Year 2009</b>	<b>Calendar Year 2010</b>	<b>Calendar Year 2011</b>
<b>State Cost</b>	\$48.8 million	\$97.6 million	\$103.9 million
<b>State Revenue</b>	\$64.5 million	\$97.4 million	\$104.2 million
<b>Family Temporary Disability Leave Account Balance</b>	\$15.7 million**	\$15.5 million	\$15.8 million

\*This estimate does not include the amount up to \$25 million that may be borrowed (and must be paid back, beginning in 2011) from the State disability benefits fund to support start up costs.

\*\* See page two for projected balances.

- The Office of Legislative Services (OLS) estimates that the cost of the benefits provided under this bill are paid for from assessments on employees' wages, for the time period addressed in this estimate. This bill, therefore, will have no impact on the State General Fund.

## BILL DESCRIPTION

Assembly Committee Substitute (1R) for Assembly Bill No. 873 of 2008 extends the current State temporary disability insurance (TDI) system to provide any eligible worker with up to 6 weeks of paid family leave during the first 12 months after the birth or adoption of a child, or to

care for a family member with a serious medical condition. The bill would apply to all private and government sector employers that are subject to the unemployment compensation law, including local government employers who currently choose to opt out of the regular TDI program. The bill would not apply to federal government employees.

The bill assesses an additional tax on that portion of an employee's wages that are subject to the State TDI tax. Beginning January 1, 2009, the additional tax rate would be 0.09 percent and will increase to 0.12 percent on January 1, 2010. The revenue generated by this additional tax will be deposited into the Family Temporary Disability Leave Account within the State TDI fund. Paid Family Leave (PFL) benefits would be made available from this account beginning July 1, 2009. An amount not to exceed \$25 million will be transferred from the State TDI fund to the new account to support start-up costs. Any such transferred funds must be repaid starting January 1, 2011 and must be completely repaid by December 31, 2015. The program would not affect the General Fund.

## FISCAL ANALYSIS

### *OFFICE OF LEGISLATIVE SERVICES*

The OLS estimates that the costs of the PFL program will be entirely paid by revenue generated through the employee only tax, for the time period addressed in this estimate.

The Department of Labor and Workforce Development (department) did not provide a formal estimate for A-873 (ACS (1R)). However, the department conducted an analysis and evaluation of previous similar legislation in October, 2007 (S-2249 (1R)). This analysis included the evaluation of a six week PFL program with available data. Much of that information has been shared by the department with the OLS and is relied on heavily for this analysis.

### **Paid Family Leave Program - 6 Weeks of Benefits**

#### **Estimated Costs and Revenues<sup>1</sup>**

(in millions of dollars)

	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>
Beginning Balance	0	15.7	15.5
Benefit Costs	43.6 (six months)	90.4	94
Administrative Costs	5.2	7.2	7.5
Payback of start up costs	0	0	2.4
Total Estimated Costs	48.8	97.6	103.9
Estimated Revenue	64.5	97.4	104.2
Estimated Year-End Balance	15.7	15.5	15.8

<sup>1</sup>This estimate does not include the amount up to \$25 million that may be borrowed (and must be paid back) from the TDI fund to support start up costs.

#### **Benefit Costs:**

In order to determine the costs of the program, it is imperative to first estimate how many individuals may participate in the program. The OLS estimates that 38,200 people would be expected to file claims in 2009, but the program is only available for the second half of that year, so the actual experience that year should be approximately 19,100 claims (half of the total expected claims for CY 2009).

The estimate of 38,200 claims was extrapolated using CY 2005 NJ TDI eligible pregnancy claims (the most recent available) and analyzing California's experience (the only other state to have a Paid Family Leave program). The CY 2005 data indicate that 37,200 people would have filed claims if the program had been in effect that year. Twenty-nine thousand people would have participated under birth and adoption claims and 5,000 claims would have been made for care of sick family members. In addition, 3,200 claims would have been made by laid off individuals. (If a person who is laid off and receiving unemployment insurance (UI) benefits, becomes eligible for PFL through birth, adoption or family care, they may stop collecting UI benefits and start collecting PFL benefits. This will have minimal to no effect on unemployment insurance costs because it does not extend the current 26 weeks of eligibility for unemployment insurance.) Thus, the total claimants for 2005 would have been 37,200 (29,000 + 5,000 + 3,200). Each year the number of estimated claims will need to be adjusted upward to reflect the actual increase in covered employment and benefit rates as estimated by the department. In total, the estimated claims will be 19,100 in the second half of 2009, 38,300 in 2010 and 38,500 in 2011.

Each claimant is eligible for six weeks of PFL at the same rate as TDI benefits. The average weekly benefit for PFL for 2009 is estimated to be \$415. The experience in California indicates that the average claimant takes 5.5 weeks PFL. Therefore, the total benefit cost of PFL for CY 2009 is \$43.6 million (19,100 claimants multiplied by \$415 is equal to \$7.9 million; 5.5 weeks multiplied by \$7.9 million is \$43.6 million). The PFL benefits for CY 2010 and 2011 are calculated in the same manner.

#### **Administrative Costs**

The department in its October, 2007 analysis estimated that administrative costs would be \$5.2 million for CY 2009. The first year may have unforeseen costs associated with the establishment of the program and the administration of the benefits in the second half of the year only. Some of these costs may be covered by the \$25 million maximum that may be borrowed by PFL from the TDI fund.

#### **Payback of Start Up Costs**

The department in its October, 2007 analysis estimated that a payback schedule of \$2.5 million per year for the five years permitted under A-873 ACS (1R)) would be followed. It is uncertain at this time what amount will be borrowed from the TDI fund to establish the program.

#### **Estimated Revenue**

The revenue to fund the PFL program would be generated from an additional employee only tax on wages subject to the TDI tax, approximately \$27,700 in CY 2008. The maximum cost of the PFL program to an employee, assuming the CY2008 wages of \$27,700, will be \$25 in CY 2009 and \$33 for CY 2010.

The department in its October, 2007 analysis estimated that taxable wages subject to the TDI tax would equal \$82.1 billion in CY 2009, \$86.1 billion in CY 2010 and \$89.9 billion in CY 2011.

The department further estimated that the collection rate for this tax will equal 97 percent. In addition, the revenue collected as of December 31, 2009 represents approximately 90 percent of the total 2009 taxable wages because tax revenue is actually collected from April through March. Thus in the following years, each CY estimated revenue represents  $\frac{3}{4}$  of the collection for that year in addition to  $\frac{1}{4}$  of the previous year. Based on these estimated taxable wages, the OLS estimates that \$64.5 million in revenue will be raised in CY 2009 (when the tax rate would equal 0.09 percent), \$97.4 million in CY 2010 and \$104.2 million in CY 2011 (when the tax rate would equal 0.12 percent).

In summary, the OLS estimates that the revenue generated from the PFL tax will adequately fund the costs associated with the program, for the time period addressed in this estimate.

*Section: Commerce, Labor and Industry*  
*Analyst: Robin C. Ford*  
*Assistant Fiscal Analyst*  
*Approved: David J. Rosen*  
*Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C. 52:13B-1 et seq.).