DEPARTMENT OF CONSUMER & BUSINESS SERVICES

M E M O R A N D U M

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To: Patrick Allen, Director, DCBS
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From: Gary Helmer, Senior Economist, DCBS

Subject: Analysis of benefit costs under HB 3087, the Oregon Family and Medical Leave Insurance (FAMLI) Program

Issue

HB 3087 would create the Family and Medical Leave Insurance (FAMLI) Program. This memo summarizes our estimate of the cost of the benefits paid under this program. Following the summary, we discuss the assumptions that go into this analysis and compare our estimate with an analysis done by the Institute for Women's Policy Research (IWPR). This memo discusses only the benefit costs; the program's administrative costs are not included and will be estimated in a separate fiscal impact statement.

Summary

We do not have claims data for a cost analysis for Oregon workers and employers. However, California has paid leave programs, and we have used data from California's programs to compare the statutory benefits in those programs to the proposed benefits in HB 3087. This is done by:

- Using California's actual benefit costs and adjusting for differences in:
  - the statutory weekly payments,
  - the statutory length of time for which benefits can be paid, and
  - employment
- Extrapolating the values to CY 2021 dollars, the first year benefits are paid under the bill.

As shown in the table below, we estimate the costs for Oregon benefits under HB 3087 to be about $934 million in CY 2021 or 0.8 percent of total Oregon wages. This estimate is subject to a great deal of uncertainty centered on how the system is promoted, how it is perceived by the public, how it is used, and how it affects employer behavior. A reasonable range for a one-year benefit cost estimate would be from $748 million to $1.12 billion. This is discussed further below.

Estimate of paid benefit costs for HB 3087
in CY 2021 ($ millions)

	Mid-point estimate
Est. Oregon benefit costs	$934
Est. benefits as a percentage of wages	0.8%

Note: This estimate does not include administrative costs.

Funding analysis based on the California leave programs

California's paid leave programs have several features that make them a valid comparison to Oregon's program proposed under HB 3087. California's program has benefits similar in structure to the proposed Oregon benefits[1]. The funding mechanism is expressed as a percent of taxable income, also like Oregon's proposal. Also, the California programs have existed since 2004, which provides some confidence that the programs have reached sustainability.

The following table compares Oregon's proposed benefits to California's benefits for different hourly wages. For example, an Oregon worker with an hourly wage of $9.88 would earn $395 in a 40-hour week. Under HB 3087, workers earning less than the average weekly wage (AWW) would be paid 90 percent of their weekly wage for their time on paid family and medical leave. In this case, the worker would receive $356. For comparison, the 2017 California benefit would be $218.[2] Therefore, the Oregon benefit would be 163 percent of the California benefit.

This ratio would hold for the majority of workers. For workers with wages above the average weekly wage (AWW), the benefit would be 90 percent of the wage up to the AWW and then 50 percent of the remainder up to a cap of $1,200 per week.[3] Therefore, workers earning in the 75th percentile of wages would have a weekly benefit that was 151 percent of the California benefit, and workers earning in the 90th percentile would have a benefit 125 percent of the California benefit.

Benefits paid at different wages for the Oregon proposal (HB 3087)
and for the California program

	Hourly wage	Weekly wage (40 hours)	OR benefits	CA benefits	OR:CA percent
10th Percentile	$9.88	$395	$356	$218	163%
25th Percentile	12.13	485	437	267	164%
50th Percentile (Median)	18.15	726	653	400	163%
75th Percentile	28.60	1,144	948	630	151%
90th Percentile	43.72	1,749	1,200	962	125%
Mean (Average)	$23.53	$941	$847	$522	162%
Ave. paid weeks		9		13	69%
OR:CA ave. benefits					113%

While the proposed weekly benefit in HB 3087 is higher than California's benefit, we estimate the length of time the benefit would be paid is less. California's disability benefit is limited to 52 weeks; the average paid disability benefit is 13 weeks.[4] The family leave benefit is limited to 6 weeks. The average paid benefit is 5 weeks, so the majority of the claimants are taking the maximum benefit. Combining the two California programs, the average paid benefit is for 13

[1] California has two programs, Disability Insurance (DI) and Paid Family Leave (PFL), that pay the benefits that would fall under Oregon's proposal. See http://www.edd.ca.gov/about_edd/Quick_Statistics_Definitions.htm

[2] See the description of the California benefit structure at http://www.edd.ca.gov/disability/Calculating_PFL_Benefit_Payment_Amounts.htm . See the calculation of the maximum weekly benefit for claims beginning on 1/1/2017 at http://www.edd.ca.gov/pdf_pub_ctr/de2589.pdf

[3] The cap would be increased annually.

[4] See http://www.edd.ca.gov/about_edd/quick_statistics.htm#DIStatistics

weeks. The proposed Oregon benefit is for 12 weeks, with an additional 6 weeks for parental care. Using the California system as a model suggests that the average Oregon benefit will be paid for 9 or 10 weeks. For this analysis, we have assumed that the average benefit would be paid for 9 weeks.

The combination of the higher benefit and the shorter period of paid benefits implies that Oregon's average paid benefit will be about 113 percent of that in California. This is shown in the preceding and following tables.

The following table shows the estimate of the benefit costs. California's paid benefits totaled about $6.08 billion in 2015.[5] Oregon has about 10 percent as many workers as California. Combining this information with the richer benefit package suggests if HB 3087 had been in effect, Oregon's paid benefits would have totaled about $687 million in CY 2015.

Estimates of Oregon paid benefit costs under HB 3087
based on California paid benefits

	Estimate	Lower est.	Higher est.
Benefit richness	113%		
California benefits paid in 2015 ($ millions)	$6,079		
Oregon employment as percent of CA	10%		
Est. Oregon benefit costs in 2015 ($ millions)	$687		
Growth from 2015 to 2021	136%		
Est. Oregon benefit costs in 2021 ($ millions)	$934	$748	$1,121
Est. percentage of wages	0.8%	0.6%	0.9%
Est. Oregon benefit costs in 2022 ($ millions)	$980	$784	$1,176
Est. Oregon benefit costs in 2023 ($ millions)	$1,026	$821	$1,231

Note: These estimates do not include administrative costs.

Under HB 3087, the state would begin paying benefits in CY 2021. Based on the latest Office of Economic Analysis forecast, we would expect employment in CY 2021 to be 11 percent higher and the average weekly wage to be 22 percent higher than in CY 2015.[6] Assuming this growth, estimated paid benefits in CY 2021would be about $934 million, 36 percent higher than in 2015. This amount would be about 0.8 percent of total wages. After CY 2021, benefits would be expected to grow at about 5 percent per year as employment and average wages grow.

This estimate is subject to a great deal of uncertainty, noted below. It is not unreasonable to initially assume an error of 20 percent, putting the CY 2021 estimate in the range of $748 million to $1.12 billion. We discuss the sources of uncertainty in the final section of this memo.

[5] See http://www.edd.ca.gov/About_EDD/pdf/edddiforecastdec16.pdf

[6] HB 3087 would permit self-employed individuals to pay into the program and receive benefits. We have not tried to include their participation in the employment figures. Also, the CY 2021 benefits would be tied to 2020 wages; our inflation factor accounts for this.

IWPR analysis

The Institute for Women's Policy Research (IWPR) has provided us with a cost analysis that used a simulation model with two main datasets: the 2012 FMLA Survey[7] and the American Community Survey (ACS)[8]. The FMLA survey was used to estimate leave behaviors. This national survey had about 2,900 completed employee surveys and 1,800 completed worksite surveys. It found that 13 percent of these respondents had taken FMLA leave in the previous year, mostly for the employee's own illness. The ACS was used for Oregon's 2010-2014 demographic data.

The model uses estimates of leave-taking behavior when possible, and makes assumptions and includes user-supplied options to model unknown behavior. The estimates of leave-taking behavior are in three areas: the worker's own health needs; maternity-related disability and new-child bonding; and family care for spouses, children, or parents. The behaviors include needing a leave, taking a leave, getting paid for a leave, and extending a leave if some or more pay were received. The model predicts the leave behaviors and characteristics as a function of the demographic characteristics for employed individuals in the ACS.[9]

The IWPR model produced an estimated cost of the benefits of $560 million per year in 2014 dollars. If we apply the OEA's growth rates in employment and wages between 2014 and 2021, this figure would be about $820 million per year in CY 2021. This value is within our lower estimate of the costs.

	IWPR figures 2014	Extrapolated 2021	% change
Number receiving benefits	135,700	156,400	15%
Benefit costs ($ millions)	$560	$820	46%

Discussion of assumptions and uncertainties

California's information about its leave programs and IWPR's discussion of its model provides useful information about Oregon program under HB 3087. Although we assumed that the California programs are stable, the benefit costs are expected to increase by 7.5 percent per year due to growth in the work force, average wages, and the number of claims.[10] Also, although the number of disability claims has been falling slightly,[11] the number of family leave claims has been rising by about 5 percent per year.

The IWPR study discusses issues that make any forecast uncertain. The degree to which workers may use Oregon's proposed program will depend on a number of factors that cannot be estimated with any certainty. These include:

- workers' knowledge of the program
- the administrative complexity of obtaining benefits
- workplace cultures that either encourage or inhibit program use.

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[7] See https://www.dol.gov/whd/fmla/survey/

[8] See http://www.census.gov/programs-surveys/acs/

[9] See Alan Clayton-Matthews and Randy Albelda, *The Albelda Clayton-Matthews Paid Family and Medical leave Simulator Model Documentation*, https://www.dol.gov/wb/media/MA%20Full%20Simulation%20Model.pdf

[10] See http://www.edd.ca.gov/About_EDD/pdf/edddiforecastdec16.pdf

[11] See http://www.edd.ca.gov/about_edd/quick_statistics.htm#DIStatistics

Worker knowledge is essential to program use. One study found that fewer than half of California workers knew about the paid family leave program after it had been in existence for 10 years. The extent to which the state and other interested parties promote the program will greatly affect its use.

HB 3087 provides benefits to all workers working for an employer, many of whom already receive paid leave. Workers will need to evaluate the program's benefits against the time and cost of filing claims for benefits. Workers with short leaves who are already being paid by their employers may not file claims.

Worker leave patterns may also change. As noted above, we assumed the average leave would be for 9 weeks. If the average were to be 10 weeks, an additional $100 million would be paid per year.

Employer responses to the program will also affect its use. Employers who are providing paid leave may choose to cut back on this leave and encourage their workers to file claims for benefits. The IWPR model assumes that this will occur to some extent. If employers reduce current paid leave benefits in response to the bill, this could greatly increase benefit costs.

These factors mean that the benefit costs may not be stable over time. Unless there is wide-spread knowledge of the program, the initial costs may be low. If employers reduce their benefits and encourage their employees to use the program, the costs could increase.

Program costs will also vary with the economy. A recession with job losses would lead to fewer workers who can claim benefits as well as reduce the amount of assessments to fund the program. It would also dampen increases in program costs because the benefits are tied to the worker's wages in the prior year. On the other hand, an expanding economy with strong wage growth would result in strong growth in program costs along with growth in employment levels and wages. All of these factors limit our certainty of these estimates.

Please let me know if you would like any more information.