

How a Voluntary Paid Family Leave Program Might Affect Program Costs

Based on preliminary calculations and using an adverse selection factor of 1.3, making participation voluntary for own medical leave in H.107 would raise the contribution rate from 0.55% to 0.61% if the wage base up to the Social Security taxable maximum is representative of participants.

Making a paid family leave program voluntary rather than mandatory raises program costs. Workers who voluntarily participate in the paid family leave program are more likely to need paid family leave and thus will raise the cost of the program per participant. The effect on the characteristics of the participant pool is known as adverse selection.

The factors associated with different participation rates are only rough estimates. We don't have good information on the adverse selection factor for four reasons.

- No jurisdiction in the United States currently has a voluntary paid family leave program.
- The rate of participation is highly uncertain and would likely drop as premiums increase.
- The cost of the program depends on the number of weeks taken and average weekly benefit.
 - Both the number of weeks and the average weekly benefit would likely differ based on the participation rate.
- The administrative costs could be higher if there is high turnover in participation among workers over time.

Information on the size of the cost increase comes from two sources.

1) Carrier B response to the Request for Information issued by Governors Scott and Sununu, received March 2019.

Table 1. Claims Costs Grow with Lower Participation

Participation	Factor
25%	1.60
30%	1.50
50%	1.27
75%	1.05
90%	1.02

2) Hayes, Jeffrey A. and Meika R. Berlan. "Costs and Benefits of Family and Medical Leave for New Hampshire Workers," Institute for Women's Policy Research, February 7, 2017.

https://www.dol.gov/wb/media/NH_Final_Report_2015_Final_Report.pdf

Table 2. Lower Participation Affects Claims Costs

Participation	Factor
35%	1.6
70%	1.29
100%	1.00