prenatal-to-3 policy IMPACT CENTER
VANDERBILT Peabody College

POLICY BRIEF
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Funding Mechanisms for State Paid Family and Medical Leave Programs

Paid family and medical leave (PFML) is an evidence-based policy proven to improve parent and child wellbeing, reduce poverty, and keep mothers engaged in the workforce. By providing parents the opportunity to stay home to bond with a new child without risking a full paycheck, PFML increases financial stability for working parents during a critical time in their life.

As of October 2024, 14 states, including the District of Columbia, have adopted a statewide PFML program, and benefits are available to families in 10 of those states.[1,2] Policy design choices, such as eligibility, the number of weeks of paid leave offered, and the amount of a worker's wages provided while taking leave impact how much the program will cost. Each state's PFML program is different, therefore the total revenue each state needs to collect to support their program is also different.

State PFML programs are paid for through payroll contributions or deductions, also called premiums, that cover the full cost of benefits and program administration. The state government does not provide ongoing funding. Because PFML programs are self-sustaining, policy decisions related to how to fund a PFML program, from start-up through implementation, are critical to a program's success.

This brief outlines the key policy decisions states must make to fund their PFML programs, including whether to provide start-up funding, who pays the premium and to what degree, how premium rates are determined, and what wages are subject to the premium.

KEY TAKEAWAYS

- **PFML programs are self-sustaining.** Although states typically require general revenue for start-up funding, PFML programs are funded entirely through payroll contributions (also called premiums) from workers, employers, or both. Premiums cover benefits and the cost to administer the program. Once the program is up and running, start-up funding is often paid back to the state's general revenue fund.
- **State policy design choices impact the cost of PFML programs to workers and employers.** Policy decisions about program eligibility, benefit levels, and what wages will be subject to the premium all influence the level of premiums needed to fund the program.
- **PFML programs have remained affordable for workers and employers.** PFML premium rates remain low. As of October 2024, all but two states' total premiums were at or below 1.0% of wages. Although premiums have fluctuated over the last decade, they have not increased or decreased significantly in any state.

How Are PFML Programs Funded?

State paid family and medical leave (PFML) programs are self-sustaining, funded through small payroll contributions or deductions, also called premiums, collected from workers, employers, or both. Although states have often allocated general revenue to support start-up costs, ongoing funding from the state is not necessary.

Start-up Funding

It takes several years from policy adoption to implementation for a state to stand up a new PFML program.[3] To get the program off the ground, most states have borrowed from their general revenue to cover start-up costs, such as hiring staff and creating the essential infrastructure.[4] Once the program is up and running, start-up funds are generally paid back to the state.

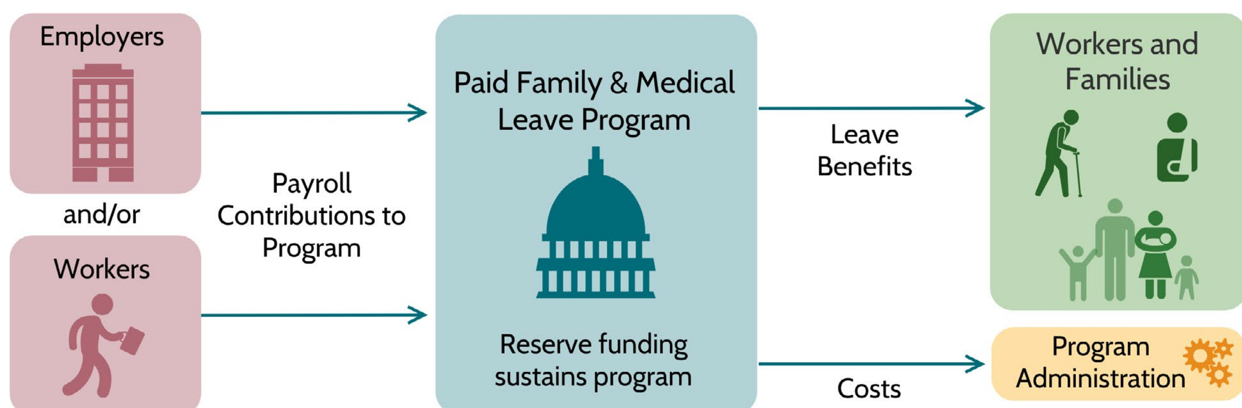
For example, in Washington, legislators appropriated $82 million to support the start-up of the program in 2017 when the policy was enacted. Premium collection began in January 2019, and the loan from the state's general revenue fund was repaid with interest by June 2019.[5] Alternatively, Minnesota is unique in that the legislature provided a substantial one-time appropriation that allows the state to begin collecting premiums and delivering benefits at the same time. The appropriation is not required to be repaid.

Worker/Employer Premiums

Ongoing funding for PFML programs is collected through premiums from workers, employers, or both. Premiums cover the cost of benefits and program administration as well as any required reserve funds. In every state except New York, premiums are transferred into a dedicated trust fund managed by the state.[6] Most states require their PFML trust fund to maintain a specified level of reserve funds (often at least 3 months' worth of estimated program benefits) to help ensure program solvency and provide a cushion from unexpected economic downturns.[7]

Typically, states begin collecting premiums 1 to 2 years before benefits become available to ensure the trust fund has adequate funding to support program benefits and administration once paid leave becomes available to families. Each year, states ensure that programs remain solvent by using a formula to redetermine premium rates.

Paid family and medical leave is funded entirely by payroll contributions, at no additional cost to the state government.



Who Pays the Premium?

The premium for paid family and medical leave (PFML) programs is paid by workers, employers, or both. In states where the premium is shared between both workers and employers, states also decide the degree to which the premium is split between workers and employers.

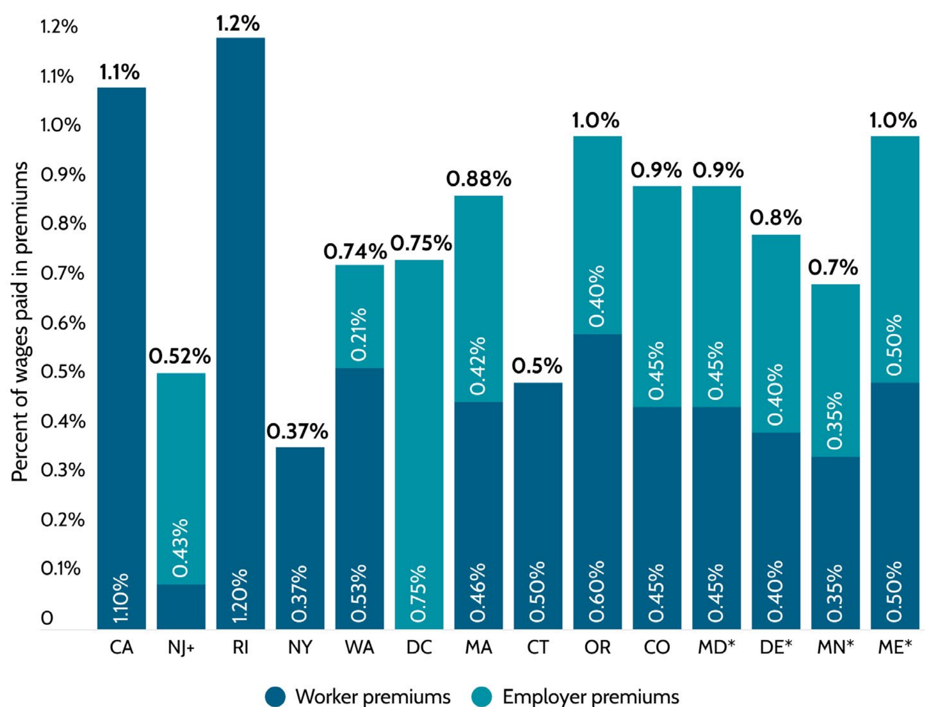
The five most recent states to adopt PFML (Colorado, Delaware, Maine, Maryland, and Minnesota) evenly split the cost of the program between workers and employers. In Oregon, the premium is also shared between workers and employers, but workers contribute 60% and employers contribute 40% of the premium.

In some cases, the funding structure varies depending on the type of leave. For instance, in four states, workers cover the full cost of family leave but share the cost of medical leave with employers. Splitting the cost of the program between workers and employers distributes the financial burden, which can lessen any negative fiscal impacts on workers earning lower wages who rely on a greater portion of their wages for basic needs.

Premium Split by Leave Type

State	Family Leave	Medical Leave
California	Workers	
Colorado	Both	
Connecticut	Workers	
Delaware	Both	
District of Columbia	Employers	
Maine	Both	
Maryland	Both	
Massachusetts	Workers	Both
Minnesota	Both	
New Jersey	Workers	Both
New York	Workers	Both
Oregon	Both	
Rhode Island	Workers	
Washington	Workers	Both

The graph below shows states' 2024 PFML premiums and the portion of that premium being paid by workers and/or employers. The chart illustrates that, for example, in Massachusetts, employers contribute a premium equal to 0.42% of wages paid to their employees and workers pay a premium equal to 0.46% of wages paid, for a total premium rate of 0.88% of wages.



+ Employer premium varies by employer size; cited rate reflects midpoint of range

* Indicates the state has not yet begun collecting premiums.

Note: States are listed in order of implementation.

Exemptions for Small Businesses

Acknowledging that small businesses may struggle to afford PFML contributions, five states in which the cost of the program is shared between workers and employers (Colorado, Maine, Maryland, Massachusetts, and Washington) include a provision to exempt certain small businesses from paying the employer portion of the premium.[8] The definition of "small business" is based on the number of employees; however, the specific number varies across states. In Colorado, businesses with fewer than 10 employees are not required to pay the employer portion of the premium, whereas in Washington, businesses with 50 or fewer employees are similarly exempt. Although exemptions may support businesses with a smaller number of employees, they reduce the overall revenue that will be collected, which means a higher premium will be required to fully fund the program.

Because the number of employees does not always translate to having a limited budget, states may also consider structuring premium exemptions or reductions based on annual revenue rather than the number of employees, though no states have adopted this approach to date. This approach would target exemptions or reductions to businesses with limited financial capital or thin revenue margins, such as child care centers, family-owned businesses, or start-ups, that need the support most.

STATE POLICY SPOTLIGHT: MINNESOTA

When Minnesota begins premium collection in 2026, small businesses (employers with 30 or fewer employees) will be eligible for a reduced employer premium. The employer premium will be reduced proportionally to the wages paid to their employees. All employers, regardless of size, will be required to contribute to the program, but employer premiums for small businesses will be reduced on a sliding scale. [9]

How Is the Premium Rate Determined?

States have used actuarial studies, which estimate how many eligible workers will use paid leave in a benefit year (i.e., the take-up rate) and for how many weeks, to estimate costs for the first year of the program and to determine the initial premium rate. Some states have set the initial premium rate in their laws, whereas others have authorized the state agency to set the initial rate. In all states, premiums can be adjusted each year to help maintain program solvency. Two important factors that can impact the premium rate are: what wages will be subject to the premium and will there be cap on premium rates.

Contribution Wage Base

In all states, except California and the District of Columbia, the premium only applies to a certain amount of workers' annual wages (i.e., the contribution wage base). Once a worker's annual earnings reach the threshold, the worker is done contributing to the program for the year. This means that, in most states, workers with very high earnings stop paying the premium partway through the year.

Nine states use the same annual earnings threshold as is used for Social Security ($168,600 as of 2024).[10] The remaining five states use different metrics to determine the contribution wage base. For example, Rhode Island's contribution wage base threshold is always equal to the annual earnings needed for a worker to qualify for the maximum weekly benefit ($87,000 as of 2024).[11] This means Rhode Island must set a higher premium rate to collect the same revenue as a different state with a higher contribution wage base.

2024 Contribution Wage Base Thresholds

State	Contribution Wage Base Threshold
California	All wages
Colorado	$168,600
Connecticut	$168,600
Delaware	$168,600
District of Columbia	All wages
Maine	$168,600
Maryland	$168,600
Massachusetts	$168,600
Minnesota	$168,600
New Jersey	Family leave: $161,400; Medical leave: $42,300
New York	$89,344
Oregon	$168,600
Rhode Island	$87,000
Washington	$168,600

Alternatively, collecting premiums on all wages, regardless of income level, means the premium rate can be lower for everyone while the state still collects the same or more revenue to support the program. It also means workers with lower earnings are not contributing a disproportionate amount of their income compared to workers with higher earnings. With additional funding to support the program, states gain flexibility to make other policy choices, such as increasing the dollar amount workers receive while taking paid leave.

STATE POLICY SPOTLIGHT: CALIFORNIA

During the 2022 legislative session, policymakers in California enacted S.B. 951 to eliminate the wage threshold on PFML contributions beginning on January 1, 2024.[12] By applying the premium to all wages, this allowed the state to increase the portion of wages paid while on leave for workers with lower earnings without significantly raising the premium rate.

Premium Cap

To alleviate concerns of program costs rising too high, seven states have set a cap on premium rates, meaning the state may not set the total contribution rate above that amount. Setting the premium cap too low, however, may harm long-term program solvency because it does not provide the state as much flexibility to adjust if program take-up increases unexpectedly (due to a global pandemic like the COVID-19 pandemic, for example).

Two states (Maine and Oregon) set their initial premium equal to the premium cap, which means, without legislative action, the premium rate can only decrease or stay the same in future years. In states with no premium cap, rates have remained fairly steady, and, with the exception of Rhode Island, have remained under 1.0% to date.[13]

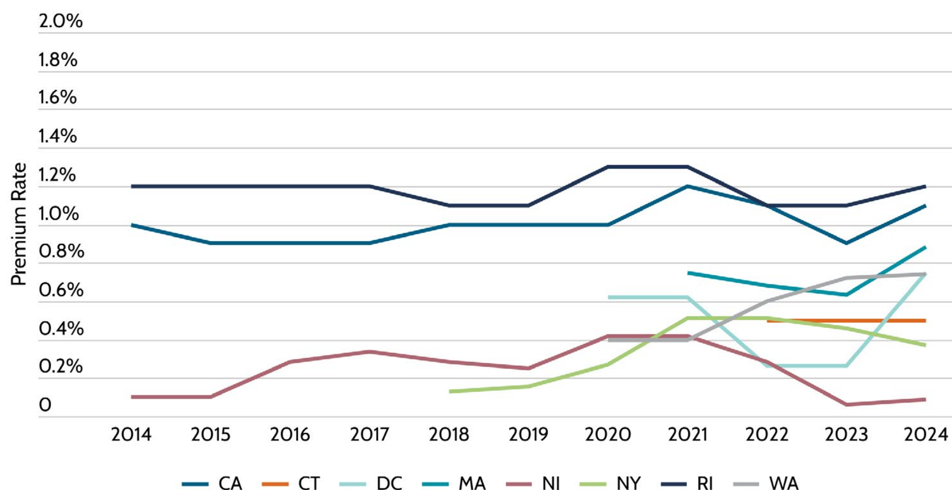
2024 Premium Rates and Caps

State	2024 Premium	Premium Cap
California	1.10%	1.50%
Colorado	0.90%	1.20%
Connecticut	0.50%	0.50%
Delaware*	0.80%	No cap
District of Columbia	0.75%	No cap
Maine*	1.00%	1.00%
Maryland*	0.90%	1.20%
Massachusetts	0.88%	No cap
Minnesota*	0.70%	1.20%
New Jersey	0.52%**	No cap
New York	0.37%	No cap
Oregon	1.00%	1.00%
Rhode Island	1.20%	No cap
Washington	0.74%	No cap

*Premiums are not yet being collected.
**In New Jersey, the contribution rate for employers ranges from 0.10% to 0.75% based on employer size. The contribution rate for workers is 0.09%. The rate shown above reflects the midpoint of the employer rate plus the worker rate.

Premium Fluctuations Over Time

Although premium rates have fluctuated over time, no state's PFML premium has changed significantly. In California, the state with the longest running program, the largest year-over-year change in the last decade was 0.2 percentage points, which occurred as both an increase and a decrease in separate years. Connecticut's premium has remained at 0.5% (the premium cap) since the program began implementation in 2022. The premium in New Jersey decreased in 2022 and again in 2023 because the state temporarily eliminated the worker contribution for medical leave. The premium in the District of Columbia rose from 0.26% to 0.75% in July 2024.



Note: Only states administering paid leave benefits as of October 2024 are represented on the chart. Oregon's program began on September 1, 2023, and Colorado's program began on January 1, 2024. Because neither state's premium has been adjusted yet, they are also not included on the chart.

Paid Leave Programs Are Self-Sustaining

Statewide paid family and medical leave (PFML) programs are self-sustaining, funded through premiums collected from workers, employers, or both. Premiums are typically modest contributions that cover the full cost of benefits and program administration. Although states may allocate general revenue to support start-up costs, ongoing funding from the state is not required.

Because a number of factors influence the premium rate needed to fund a state's PFML program, a high premium does not necessarily mean a state offers a more generous PFML benefit. PFML benefit levels and eligibility impact the amount of revenue the state needs to collect through worker and/or employer premiums to fully fund the program. The premium rate is also influenced by the contribution wage base and any exemptions or reductions from paying the premium, such as exemptions for small businesses. States have often used actuarial studies to determine the initial premium rate, and although premiums are redetermined each year, no states' PFML premium has changed drastically.

Policymakers considering a new PFML program can build upon lessons learned from existing state programs to continue to design sustainable PFML programs for all families in their state.

Additional Resources

- **PFML State Policy Lever Checklist**
  Our checklist provides policy considerations for state leaders to help maximize the effectiveness of a state PFML program.
- **Benefit-Cost Analysis of Pennsylvania's Paid Family Leave Program Proposed in H.B. 181**
  Read about our benefit-cost analysis of a proposed paid family leave program in Pennsylvania, which found that the annual societal benefits of bonding leave would outweigh its costs, with an estimated ratio of 18 to 1.
- **Financing Sustainable Paid Family and Medical Leave Program**
  The National Partnership for Women and Families conducted a review of key policy features and detailed analysis of the financial state of four states' programs: Connecticut, the District of Columbia, Massachusetts, and Washington.
- **Paid Leave Benefits and Funding in the United States**
  The Better Life Lab at New America's explainer on paid leave benefits and funding provides an overview of how states vary in terms of wage replacement, duration, and program funding mechanisms.

Citation

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Notes and Sources

[1] Paid family and medical leave benefits are currently available to families in California, Colorado, Connecticut, Massachusetts, New Jersey, New York, Oregon, Rhode Island, Washington, and the District of Columbia. Benefits will become available in the remaining four states (Delaware, Maine, Maryland, and Massachusetts) in 2026.

[2] Additionally, as of October 2024, 27 states that have not implemented a statewide paid family and medical leave program offer paid parental leave for state employees. These benefits are not typically funded through a social insurance model. Instead, state general revenue is used to cover the cost of paid parental leave benefits for eligible state employees. Most often state employees receive full pay while taking parental leave.

[3] California, New Jersey, Rhode Island, and New York amended preexisting temporary disability insurance programs to include paid family leave, which meant these states already had much of the critical infrastructure to support premium collection and benefit distribution. Therefore, the time between policy adoption and implementation is shorter in these four states.

[4] Reddy, V. and Mason, J. (2023, December). *Financing Sustainable Paid Family and Medical Leave Programs.* National Partnership for Women and Families. https://nationalpartnership.org/wp-content/uploads/financing-sustainable-paid-family-medical-leave.pdf

[5] Watkins, M. P. (2020, August 20). *Preliminary Lessons from Implementing Paid Family & Medical Leave in Washington.* Economic Opportunity Institute and Family Values at Work. https://www.opportunityinstitute.org/wp-content/uploads/2020/08/Preliminary-Lessons-from-Implementing-PFML-in-WA.pdf

[6] In New York, paid family leave is administered through both private insurers and a state-run program.

[7] Reddy, V. and Mason, J. (2023, December). *Financing Sustainable Paid Family and Medical Leave Programs.* National Partnership for Women and Families. https://nationalpartnership.org/wp-content/uploads/financing-sustainable-paid-family-medical-leave.pdf

[8] A Better Balance. (2024, July 1). Overview of Paid Family and Medical Leave Laws in the United States. Resources Article. https://www.abetterbalance.org/family-leave-laws/

[9] Minn. Stat. § 268B.14, subd. 5a.

[10] Prenatal-to-3 Policy Impact Center (2024, October). 2024 Prenatal-to-3 State Policy Roadmap. https://pn3policy.org/pn-3-state-policy-roadmap-2024/

[11] Rhode Island Department of Labor and Training (2023, December 14). *2024 Tax Rates for Unemployment Insurance and Temporary Disability Insurance.* https://dlt.ri.gov/press-releases/2024-tax-rates-unemployment-insurance-and-temporary-disability-insurance

[12] S.B. 951, 2021-2022 Leg., Reg. Sess., (Cal. 2022).

[13] Prenatal-to-3 Policy Impact Center historical analysis of state paid family and medical leave policies from 2014-2024.