MILLIMAN REPORT

Maryland Family and Medical Leave Insurance

Actuarial Study

Commissioned by The University of Baltimore

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Introduction

Milliman, Inc. ("Milliman") was engaged by the University of Baltimore to perform an actuarial analysis of the Family and Medical Leave Insurance (FAMLI) program in the state of Maryland. This analysis included the following components:

- Researching FAMLI benefits and provisions from the State of Maryland Senate Bill 275 (Chapter 48) which establishes the FMLI program and the FAMLI Fund.

- Estimating FAMLI claim costs and the initial required contribution rate for benefits provided through the FAMLI Fund.

- Estimating the cost to the State of Maryland for paying the employer contributions for Community Providers[1] and the employee contributions for employees who earn less than $15 an hour.

- Projecting FAMLI cash flows using Maryland demographic data provided to Milliman by the University of Baltimore.

- Researching the expenses related to administering paid family and medical leave benefits through a designated fund in other states, including start-up and ongoing expenses, as well as commenting on differences between self-administering benefits and outsourcing administration to a third-party administrator (TPA).

Data Reliance

In performing the analysis, Milliman relied on information provided by the University of Baltimore, as well as public information from various sources. Milliman did not audit or independently verify any of the information furnished, except that we did review the data for reasonableness and consistency. To the extent that any of the data or other information supplied to us was incorrect or inaccurate, the results of our analysis could be materially affected.

Distribution

Milliman's work is prepared solely for the use and benefit of the University of Baltimore, under the terms and conditions of the agreement signed between Milliman and the University of Baltimore on September 3, 2022. 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, the University of Baltimore shall not disclose Milliman's work to any third parties without our prior written consent.

[1] Community–based agencies or programs funded by the Behavioral Health Administration, the Developmental Disabilities Administration, or the Medical Care Programs Administration to serve individuals with mental disorders, substance–related disorders, or a combination of those disorders or developmental disabilities.

Variability of Results

The projections contained herein are estimates based on carefully constructed assumptions and methodologies that have been described in this report. Actual experience, however, will differ from those assumptions. As such, actual results will vary from the estimates provided and the cost of benefits provided under the FAMLI program may be either higher or lower than the amounts illustrated in this report. In preparing this information, we have utilized actuarial models as defined by Actuarial Standards of Practice. The intended purpose of these models is to project future claim costs for paid family and medical leave benefits.

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.

Maryland FAMLI Program Design

The Maryland FAMLI program will provide benefits to employees in Maryland who take leaves of absence from work for family or medical reasons. The program was established in 2022 through Maryland Senate Bill 275 (Chapter 48) and includes the following benefits and provisions:

- **Contribution Begin Date**: October 1, 2023
- **Benefit Begin Date**: January 1, 2025
- **Eligibility**: All public and private employees who worked 680 hours or more during the 12-month period preceding the leave of absence date will be eligible for FAMLI benefits. Self-employed workers can opt into the program.
- **Permissible Leaves of Absence**: FAMLI covers leaves of absence taken for the following reasons:
    1. To care for a child during the first year after the child's birth or after the placement of the child through foster care, kinship care, or adoption;
    2. To care for a family member with a serious health condition;
    3. Because the covered individual has a serious health condition that results in the covered individual being unable to perform the functions of the covered individual's position;
    4. To care for a service member who is the covered individual's next of kin; or
    5. Because the covered individual has a qualifying exigency arising out of the deployment of a service member who is a family member of the covered individual.
- **Income Replacement**: FAMLI benefits replace 90% of the covered employee's average weekly wage up to an amount equal to 65% of the state average weekly wage, plus 50% of the covered employee's average weekly wage above an amount equal to 65% of the state average weekly wage.
- **Minimum Weekly Benefit Amount**: $50
- **Maximum Weekly Benefit Amount**: $1,000 for 2025, adjusted annually by The Secretary based on changes in the Consumer Price Index.
- **Maximum Benefit Period**: Generally speaking, employees can take 12 weeks of leave in a 12-month period. Employees who take leave for bonding with a new child or for their own serious health condition within a 12-month period will be eligible for an additional 12 weeks of FAMLI benefits, up to a combined total of 24 weeks in these cases.
- **Waiting Period**: None
- **Definition of Family Member**: The definition of "Family Member" includes a worker's spouse, siblings (including biological, adopted, fostered, and step siblings), children (including biological, adopted, fostered, or step children), parents (including a spouse's parents), legal guardians, grandparents (including biological, adopted, fostered, and step grandparents), and grandchildren (including biological, adopted, fostered, and step grandchildren).

Illustrative Contribution Rates

We developed illustrative contribution rates for the FAMLI program based on estimated claim costs and taxable wages of covered employees during the program's initial phase-in period. We assumed that FAMLI contributions will begin on October 1, 2023 and that benefits will begin on January 1, 2025. We estimated claim costs based on the benefits and provisions from Senate Bill 275 (Chapter 48), and on morbidity assumptions developed by Milliman from historical paid family and medical leave claim experience in other states. We calculated FAMLI contribution rates for employers and employees based on the assumed taxable wages of eligible employees, and the cost sharing formulas included in Senate Bill 275 (Chapter 48) that range between (1) 75% employer-paid and 25% employee-paid and (2) 25% employer-paid and 75% employee-paid. The following table contains our estimated initial FAMLI contribution rates for the different cost sharing options:

Table 1
Illustrative Initial FAMLI Contribution Rates as a Percentage of Taxable Wages
Taxable Wages: Up to the Social Security Maximum Wage Limit

Cost Sharing Percentage		Contribution Rate		
Employer	**Employee**	**Employer**	**Employee**	**Total***
25%	75%	0.22%	0.66%	0.88%
33%	67%	0.29%	0.60%	0.89%
50%	50%	0.46%	0.46%	0.91%
67%	33%	0.63%	0.31%	0.93%
75%	25%	0.71%	0.24%	0.94%

* The rates in the Total column may not equal the sum of the rates in the Employer and Employee columns due to rounding.

The total contribution rates in the final column of Table 1 increase as the employer share of costs increases because of the FAMLI small business exemptions, which exempt employers with fewer than 15 employees from paying the employer portion of FAMLI contributions. In other words, the value of the small business exemption is greater when the employer cost sharing percentage is higher; therefore, a higher contribution rate is necessary to subsidize these exemptions.

Senate Bill 275 (Chapter 48) does not specify a premium formula or target fund balance for the FAMLI program. The legislation includes a provision for setting contribution rates every two years based on "a cost analysis of the program that is focused on the cost of maintaining solvency and paying benefits to covered individuals". We developed the illustrative contribution rates in Table 1 for the program's initial phase-in by targeting a FAMLI Fund balance in the range of 120% to 130% of expected expenditure for benefits and administration in the first two claim years (i.e., 2025 and 2026). This approach seems reasonable for a new program, and is similar to the manner in which other states with new programs set contribution rates[2]. For example, in Massachusetts (where paid family and medical leave benefits began in 2021), the contribution rates are determined annually based on a target fund level no less than 140% of the previous year's total expenditure. Other states with more tenured programs have lower target fund balances. For example, in

[2] The section called "Funding Policies in Other States with PFML Programs" in this report includes additional detail on the funding policies in other states that have paid family and medical leave programs.

California, the target fund balance is in the range of 25% to 50% of the previous year's total expenditure. A higher initial target seems reasonable for new programs because there is uncertainty around utilization and claim costs when benefits first begin. In addition, we have observed claim incidence rates grade up gradually in the initial years for new programs in other states, and it may make sense to set a higher target in the initial years to mitigate the risk of underestimating the ultimate claim experience of the program. Over time, as experience emerges, it may make sense to reduce the target fund balance because there is less uncertainty as claim experience stabilizes.

The illustrative contribution rates in Table 1 assume $60 million in start-up expenses. This assumption is based on a high-level analysis of start-up expenses in other states that have implemented paid family and medical leave programs. We understand that actual start-up expenses for the Maryland FAMLI program will depend on several factors, including existing resources, staffing objectives, and administrative practices. We also assumed ongoing administrative expenses equal to 5% of total contributions for family claims and 8% of total contributions for medical claims, based on typical expense ratios observed in other states that provide benefits through a state fund. If the expected start-up or ongoing expenses are significantly higher or lower than these assumptions, the contribution rates in Table 1 may need to be adjusted. Additional details on expenses are provided in the section "Administration and Expenses" of this report.

State Subsidies

According to Senate Bill 275 (Chapter 48), the State may pay the employer contribution for employers that are Community Providers[3], and the employee contribution for employees who earn less than $15 per hour[4].

Community Providers

Community Providers include community–based agencies or programs funded by the Behavioral Health Administration, the Developmental Disabilities Administration, or the Medical Care Programs Administration to serve individuals with mental disorders, substance–related disorders, or a combination of those disorders or developmental disabilities. We have estimated the cost to the State for paying the required contribution for employers that are Community Providers based on the illustrative contribution rates from Table 1, and on the assumed taxable wages of Community Providers. We estimated these costs between October 1, 2023 through December 31, 2027, as shown below:

Table 2
Estimated Costs to the State for Paying the Required Contribution
For Employers that are Community Providers

Employer Share of Costs	Employer Contribution Rate*	Estimated Contributions Paid by The State ($ million)			
		10/2023 – 12/2024	2025	2026	2027
25%	0.22%	$19.9	$16.8	$17.6	$18.3
33%	0.29%	$26.5	$22.4	$23.4	$24.5
50%	0.46%	$41.1	$34.7	$36.4	$37.9
67%	0.63%	$56.4	$47.7	$49.9	$52.1
75%	0.71%	$63.9	$54.0	$56.5	$59.0

* The employer contribution rates are the same as in Table 1. The corresponding employee and total contribution rates would also be the same as Table 1, although they are not shown above.

The estimated costs in Table 2 are highest during the period 10/2023 – 12/2024 (when FAMLI contributions will be collected before benefits begin in 2025) because they include 15 months of contributions, whereas the estimates from 2025 through 2027 include 12 months of contributions in every year. The estimated costs are increasing from 2025 through 2027 due to assumed growth in taxable wages. We assumed the following taxable wages for Community Providers based on the 2022 taxable wage data provided to

[3] 8.3-1001.SECTION 7. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that the State pay the required contribution under § 8.3–601 of the Labor and Employment Article, as enacted by Section 1 of this Act, to the Family and Medical Leave Insurance Fund established under § 8.3–501 of the Labor and Employment Article, as enacted by Section 1 of this Act, for employers that are community providers that are community–based agencies or programs funded by the Behavioral Health Administration, the Developmental Disabilities Administration, or the Medical Care Programs Administration to serve individuals with mental disorders, substance–related disorders, or a combination of those disorders or developmental disabilities.

[4] 8.3-1001.SECTION 8. AND BE IT FURTHER ENACTED, That, if a covered employee makes an hourly wage that is less than $15.00 an hour, it is the intent of the General Assembly that the State pay the covered employee's required contribution under § 8.3–601 of the Labor and Employment Article, as enacted by Section 1 of this Act, to the Family and Medical Leave Insurance Fund established under § 8.3–501 of the Labor and Employment Article, as enacted by Section 1 of this Act.

8.3-1001.SECTION 9. AND BE IT FURTHER ENACTED, That Section 8 of this Act shall remain effective for a period of 3 years and 6 months and, at the end of June 30, 2026, Section 5 6 8 of this Act, with no further action required by the General Assembly, shall be abrogated and of no further force and effect.

Milliman by the University of Baltimore, and employment and wage growth forecasts from the Social Security Administration and the US Department of Labor, respectively[5].

Table 3 Assumed Taxable Wages for Community Providers	
Calendar Period	**Taxable Wages ($ million)**
10/2023 – 12/2024	$9,050.5
2025	$7,645.3
2026	$7,983.1
2027	$8,327.9

Employees Who Earn Less Than $15 an Hour

We estimated the costs to the State to pay the employee contribution for employees who earn less than $15 an hour between October 1, 2023 and June 30, 2026, using hourly wage data provided to Milliman by the University of Baltimore. These estimated costs are shown below for the different cost sharing options:

Table 4 Estimated Costs to the State for Paying the Employee Contribution For Employees Who Earn Less Than $15 an Hour				
Employee Share of Costs	**Employee Contribution Rate***	**Estimated Contributions Paid by The State** ($ million)		
		10/2023 – 12/2024	**1/2025 – 12/2025**	**1/2026 – 6/2026**
25%	0.24%	$8.6	$5.7	$1.8
33%	0.31%	$11.2	$7.4	$2.3
50%	0.46%	$16.5	$10.9	$3.4
67%	0.60%	$21.6	$14.3	$4.5
75%	0.66%	$24.0	$15.8	$4.9

* The employee contribution rates are the same as in Table 1. The corresponding employer and total contribution rates would also be the same as Table 1, although they are not shown above.

The estimated costs in Table 4 are highest in the initial period (i.e., 10/2023 – 12/2024), in part, because the period includes 15 months of contributions whereas the other periods include 12 months (i.e., 1/2025 – 12/2025) and six months (i.e., 1/2026 – 6/2026). In addition, we assumed that the number of employees who earn less than $15 an hour will decrease over time due to wage growth assumed during the projection period. Similarly, the estimated costs are lowest in the final period because they include only six months of contributions, and because we assumed that the number of employees who earn less than $15 an hour is decreasing over time. The following table shows the number of employees assumed to earn less than $15 an hour between October 1, 2023 and June 30, 2026 along with the assumed taxable wages of these

[5] The estimated costs in Table 2 do not exactly equal the product of the contribution rates from Table 2 and the taxable wages from Table 3 due to rounding.

employees. The projections were developed from Maryland wage data from 2022 provided to Milliman by the University of Baltimore:

Table 5 Assumed Number of Employees and Taxable Wages for Employees who Earn Less Than $15 an Hour		
Calendar Period	**Number of Employees**	**Taxable Wages ($ million)**
10/2023 – 12/2023	141,472	$852.8
1/2024 – 12/2024	114,878	$2,776.5
1/2025 – 12/2025	98,129	$2,396.5
1/2026 – 6/2026	64,449	$748.1

Financial Projections

This section contains financial projections for the Maryland FAMLI program from October 1, 2023 through December 31, 2027, for the different cost sharing options. In the projections, we have assumed that all employers will provide benefits through the FAMLI Fund. We understand that employers will have the option to provide FAMLI benefits through private insurance options, although we do not have sufficient detail on how these options will be structured to estimate the proportion of employers that may elect these options. Participation in private insurance options depends, in large part, on the way these options are structured and coordinated with the state program. In some states, such as Washington and California, employer participation in private insurance options is low (approximately 3% for Washington[6] and 4% for California[7]), whereas other states have much higher participation rates such as New York where most employees are covered through private options. For us to develop additional scenarios that assume employer participation in private insurance options, we would need additional information on the structure of private options.

The following items are included in the projections on pages 13 through 17:

- **Eligible Employees** – Projection of eligible employees based on Maryland employment data from 2022 provided to Milliman by the University of Baltimore, adjusted for expected job growth based on employment forecasts from the Social Security Administration. We did not assume any aging of the population over the projection period.

- **Taxable Wages –** Projection of taxable wages based on the Social Security maximum taxable wage limit. The projection was developed using Maryland wage data from 2022 provided to Milliman by the University of Baltimore, projected based on employment and wage growth forecasts from the Social Security Administration and the US Department of Labor, respectively.

- **Claims** – Projection of the number of claims approved for benefits between 2025 and 2027, for family leave, medical leave, and in total. The projection assumes that employees with newborn or newly adopted or fostered children in 2024 will be eligible for FAMLI benefits in 2025 to care for these children, consistent with FAMLI benefits defined in Senate Bill 275 (Chapter 48). The projection also assumes that claim incidence rates will increase gradually during the initial years as the program phases in and employee awareness increases. This dynamic has been observed in other states that have recently adopted paid family and medical programs[8].

- **Benefit Payments ($ millions)** – Projection of benefit payments between 2025 and 2027 for family leave, medical leave, and in total. The benefit payments are higher in 2025 than 2026 because we assumed additional claims in the first year related to caring for children who are born, fostered, or

[6] Washington Paid Family and Medical Leave Annual Report, Washington Employment Security Department, December 2021

[7] October 2021 Disability Insurance (DI) Fund Forecast, State of California Employment Development Department

[8] e.g., Washington Paid Family and Medical Leave Employment Security Department Advisory Committee Meeting, January 26, 2022

adopted in 2024, and would be eligible for bonding leave according to Senate Bill 275 (Chapter 48)[9].

- **Expenses ($ millions)** – Projection of start-up and ongoing administrative expenses for the FAMLI program. The $60 million start-up expense is a high-level assumption based on the start-up expenses in other states and may need to be revised depending on the expected start-up costs for the Maryland FAMLI program. The ongoing expenses in 2025 and beyond represent 5% of paid family leave costs and 8% of paid medical leave costs in every year, which are based on average ongoing expenses reported in other states with similar programs.

- **Total Expenditure ($ millions)** – Projection of total costs for family leave, medical leave, and in total. The total expenditure is the sum of benefit payments and administrative expenses in every year.

- **Contribution Rate** – Illustrative contribution rates that cover benefit payments and administration, and maintain a FAMLI Fund balance in the range of 120% to 130% of total expenditure in 2025 and 2026. The contribution rates in the projections are the same as the contribution rates included in Table 1. We understand that the FAMLI contribution rate will be revised every two years based on emerging experience. For illustrative purposes, the projections assume the same contribution rate from October 31, 2023 through December 31, 2027.

- **Contributions** (**$ millions**) – Projection of FAMLI contributions based on the illustrative contribution rates and the assumed taxable wages, beginning on October 1, 2023. The contributions assume that employers with fewer than 15 employees will be exempt from paying the employer contribution. The contributions are shown for employers, employees, the State (for paying the employer portion for Community Providers and the employee portion for employees who earn less than $15 an hour), and in total.

- **Fund Balance ($ millions**) – Projection of FAMLI Fund balances equal to the contributions in a given year, minus total expenditure in that year, plus the assumed investment income on fund balances in that year. We have assumed 1.0% annual investment income based on typical yields for short duration assets. This assumption may need to be revised if different returns are expected from the assets held in the FAMLI Fund.

The financial projections shown below depend on a variety of actuarial assumptions about future experience, including but not limited to employment and wage growth, FAMLI 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.

[9] 8.3-302.(1) To care for a child during the first year after the child's birth or after the placement of the child through foster care, kinship care, or adoption

Projection 1

Cost Sharing Method: 25% Employer and 75% Employee

	10/2023 - 12/2024	2025	2026	2027
Eligible Employees		2,611,643	2,624,701	2,637,825
Taxable Wages ($ millions)				
Small Business Excluding Community Providers	$28,499.4	$24,074.4	$25,138.4	$26,224.1
Community Providers	$9,050.5	$7,645.3	$7,983.1	$8,327.9
All Others	$179,514.2	$151,641.9	$158,528.0	$165,567.5
Total	**$217,064.1**	**$183,361.6**	**$191,649.6**	**$200,119.5**
Claims				
Family		66,025	50,671	53,471
Medical		121,430	128,139	135,219
Total		**187,455**	**178,810**	**188,689**
Benefit Payments ($ millions)				
Family		$506.0	$404.3	$443.7
Medical		$917.8	$1,008.2	$1,106.5
Total		**$1,423.8**	**$1,412.5**	**$1,550.1**
Expenses ($ millions)				
Family		$26.6	$21.3	$23.4
Medical		$79.8	$87.7	$96.2
Total	**$60.0**	**$106.4**	**$108.9**	**$119.6**
Total Expenditure ($ millions)				
Family		$532.6	$425.5	$467.0
Medical		$997.6	$1,095.9	$1,202.7
Total	**$60.0**	**$1,530.2**	**$1,521.4**	**$1,669.7**
Contribution Rate				
Employer	0.22%	0.22%	0.22%	0.22%
Employee	0.66%	0.66%	0.66%	0.66%
Contributions ($ millions)				
Community Providers - Employer Portion Paid by State	$19.9	$16.8	$17.5	$18.3
All Other Employers	$395.0	$333.7	$348.8	$364.3
Employees with Wages < $15/hour Paid by State	$24.0	$15.8	$4.9	$0.0
All Other Employees	$1,408.9	$1,194.6	$1,260.2	$1,321.0
Total	**$1,847.8**	**$1,560.9**	**$1,631.5**	**$1,703.6**
Investment Income ($ millions)	$17.9	$18.4	$19.6	$20.2
Fund Balance	$1,787.8	$1,836.3	$1,964.7	$2,018.3
Fund Balance % of Total Expenditure		120%	129%	121%
Fund Balance % Prior Year Expenditure			128%	133%

Projection 2

Cost Sharing Method: 33% Employer and 67% Employee

	10/2023 - 12/2024	2025	2026	2027
Eligible Employees		2,611,643	2,624,701	2,637,825
Taxable Wages ($ millions)				
Small Business Excluding Community Providers	$28,499.4	$24,074.4	$25,138.4	$26,224.1
Community Providers	$9,050.5	$7,645.3	$7,983.1	$8,327.9
All Others	$179,514.2	$151,641.9	$158,528.0	$165,567.5
Total	**$217,064.1**	**$183,361.6**	**$191,649.6**	**$200,119.5**
Claims				
Family		66,025	50,671	53,471
Medical		121,430	128,139	135,219
Total		**187,455**	**178,810**	**188,689**
Benefit Payments ($ millions)				
Family		$506.0	$404.3	$443.7
Medical		$917.8	$1,008.2	$1,106.5
Total		**$1,423.8**	**$1,412.5**	**$1,550.1**
Expenses ($ millions)				
Family		$26.6	$21.3	$23.4
Medical		$79.8	$87.7	$96.2
Total	**$60.0**	**$106.4**	**$108.9**	**$119.6**
Total Expenditure ($ millions)				
Family		$532.6	$425.5	$467.0
Medical		$997.6	$1,095.9	$1,202.7
Total	**$60.0**	**$1,530.2**	**$1,521.4**	**$1,669.7**
Contribution Rate				
Employer	0.29%	0.29%	0.29%	0.29%
Employee	0.60%	0.60%	0.60%	0.60%
Contributions ($ millions)				
Community Providers - Employer Portion Paid by State	$26.5	$22.4	$23.4	$24.4
All Other Employers	$527.1	$445.3	$465.5	$486.2
Employees with Wages < $15/hour Paid by State	$21.6	$14.3	$4.5	$0.0
All Other Employees	$1,272.5	$1,078.9	$1,138.1	$1,193.1
Total	**$1,847.8**	**$1,560.9**	**$1,631.5**	**$1,703.7**
Investment Income ($ millions)	$17.9	$18.4	$19.6	$20.2
Fund Balance	$1,787.8	$1,836.3	$1,964.7	$2,018.4
Fund Balance % of Total Expenditure		120%	129%	121%
Fund Balance % Prior Year Expenditure			128%	133%

Projection 3

Cost Sharing Method: 50% Employer and 50% Employee

	10/2023 - 12/2024	2025	2026	2027
Eligible Employees		2,611,643	2,624,701	2,637,825
Taxable Wages ($ millions)				
Small Business Excluding Community Providers	$28,499.4	$24,074.4	$25,138.4	$26,224.1
Community Providers	$9,050.5	$7,645.3	$7,983.1	$8,327.9
All Others	$179,514.2	$151,641.9	$158,528.0	$165,567.5
Total	**$217,064.1**	**$183,361.6**	**$191,649.6**	**$200,119.5**
Claims				
Family		66,025	50,671	53,471
Medical		121,430	128,139	135,219
Total		**187,455**	**178,810**	**188,689**
Benefit Payments ($ millions)				
Family		$506.0	$404.3	$443.7
Medical		$917.8	$1,008.2	$1,106.5
Total		**$1,423.8**	**$1,412.5**	**$1,550.1**
Expenses ($ millions)				
Family		$26.6	$21.3	$23.4
Medical		$79.8	$87.7	$96.2
Total	**$60.0**	**$106.4**	**$108.9**	**$119.6**
Total Expenditure ($ millions)				
Family		$532.6	$425.5	$467.0
Medical		$997.6	$1,095.9	$1,202.7
Total	**$60.0**	**$1,530.2**	**$1,521.4**	**$1,669.7**
Contribution Rate				
Employer	0.46%	0.46%	0.46%	0.46%
Employee	0.46%	0.46%	0.46%	0.46%
Contributions ($ millions)				
Community Providers - Employer Portion Paid by State	$41.1	$34.7	$36.3	$37.8
All Other Employers	$817.8	$690.8	$722.2	$754.3
Employees with Wages < $15/hour Paid by State	$16.5	$10.9	$3.4	$0.0
All Other Employees	$972.3	$824.4	$869.7	$911.7
Total	**$1,847.8**	**$1,560.9**	**$1,631.5**	**$1,703.8**
Investment Income ($ millions)	$17.9	$18.4	$19.6	$20.2
Fund Balance	$1,787.8	$1,836.3	$1,964.8	$2,018.5
Fund Balance % of Total Expenditure		120%	129%	121%
Fund Balance % Prior Year Expenditure			128%	133%

Projection 4

Cost Sharing Method: 67% Employer and 33% Employee

	10/2023 - 12/2024	2025	2026	2027
Eligible Employees		2,611,643	2,624,701	2,637,825
Taxable Wages ($ millions)				
Small Business Excluding Community Providers	$28,499.4	$24,074.4	$25,138.4	$26,224.1
Community Providers	$9,050.5	$7,645.3	$7,983.1	$8,327.9
All Others	$179,514.2	$151,641.9	$158,528.0	$165,567.5
Total	**$217,064.1**	**$183,361.6**	**$191,649.6**	**$200,119.5**
Claims				
Family		66,025	50,671	53,471
Medical		121,430	128,139	135,219
Total		**187,455**	**178,810**	**188,689**
Benefit Payments ($ millions)				
Family		$506.0	$404.3	$443.7
Medical		$917.8	$1,008.2	$1,106.5
Total		**$1,423.8**	**$1,412.5**	**$1,550.1**
Expenses ($ millions)				
Family		$26.6	$21.3	$23.4
Medical		$79.8	$87.7	$96.2
Total	**$60.0**	**$106.4**	**$108.9**	**$119.6**
Total Expenditure ($ millions)				
Family		$532.6	$425.5	$467.0
Medical		$997.6	$1,095.9	$1,202.7
Total	**$60.0**	**$1,530.2**	**$1,521.4**	**$1,669.7**
Contribution Rate				
Employer	0.63%	0.63%	0.63%	0.63%
Employee	0.31%	0.31%	0.31%	0.31%
Contributions ($ millions)				
Community Providers - Employer Portion Paid by State	$56.4	$47.7	$49.8	$51.9
All Other Employers	$1,122.7	$948.4	$991.4	$1,035.5
Employees with Wages < $15/hour Paid by State	$11.2	$7.4	$2.3	$0.0
All Other Employees	$657.4	$557.4	$588.0	$616.4
Total	**$1,847.8**	**$1,560.9**	**$1,631.6**	**$1,703.8**
Investment Income ($ millions)	$17.9	$18.4	$19.6	$20.2
Fund Balance	$1,787.8	$1,836.3	$1,964.8	$2,018.6
Fund Balance % of Total Expenditure		120%	129%	121%
Fund Balance % Prior Year Expenditure			128%	133%

Projection 5

Cost Sharing Method: 75% Employer and 25% Employee

	10/2023 - 12/2024	2025	2026	2027
Eligible Employees		2,611,643	2,624,701	2,637,825
Taxable Wages ($ millions)				
Small Business Excluding Community Providers	$28,499.4	$24,074.4	$25,138.4	$26,224.1
Community Providers	$9,050.5	$7,645.3	$7,983.1	$8,327.9
All Others	$179,514.2	$151,641.9	$158,528.0	$165,567.5
Total	**$217,064.1**	**$183,361.6**	**$191,649.6**	**$200,119.5**
Claims				
Family		66,025	50,671	53,471
Medical		121,430	128,139	135,219
Total		**187,455**	**178,810**	**188,689**
Benefit Payments ($ millions)				
Family		$506.0	$404.3	$443.7
Medical		$917.8	$1,008.2	$1,106.5
Total		**$1,423.8**	**$1,412.5**	**$1,550.1**
Expenses ($ millions)				
Family		$26.6	$21.3	$23.4
Medical		$79.8	$87.7	$96.2
Total	**$60.0**	**$106.4**	**$108.9**	**$119.6**
Total Expenditure ($ millions)				
Family		$532.6	$425.5	$467.0
Medical		$997.6	$1,095.9	$1,202.7
Total	**$60.0**	**$1,530.2**	**$1,521.4**	**$1,669.7**
Contribution Rate				
Employer	0.71%	0.71%	0.71%	0.71%
Employee	0.24%	0.24%	0.24%	0.24%
Contributions ($ millions)				
Community Providers - Employer Portion Paid by Sta	$63.9	$54.0	$56.4	$58.8
All Other Employers	$1,271.4	$1,074.0	$1,122.8	$1,172.6
Employees with Wages < $15/hour Paid by State	$8.6	$5.7	$1.8	$0.0
All Other Employees	$503.9	$427.2	$450.7	$472.4
Total	**$1,847.8**	**$1,560.9**	**$1,631.6**	**$1,703.9**
Investment Income ($ millions)	$17.9	$18.4	$19.6	$20.2
Fund Balance	$1,787.8	$1,836.3	$1,964.8	$2,018.7
Fund Balance % of Total Expenditure		120%	129%	121%
Fund Balance % Prior Year Expenditure			128%	133%

Administration and Expenses

Employers in Maryland will be able to provide FAMLI benefits through the FAMLI Fund or through private insurance options. It is our understanding that benefits provided through the FAMLI Fund will be administered either by the State or by a third-party administrator (TPA), based on the provision in Senate Bill 275 (Chapter 48) that specifies that every two years, beginning in 2025, the Secretary shall conduct an analysis of the "cost efficiency and benefits of the Department issuing a request for proposals seeking the services of an outside contractor for premium collection, claims administration, data management, fraud control, marketing and advertising, or implementing any other elements of the program[10]." Although most states self-administer paid family and medical leave benefits provided through the state fund, Connecticut entered into an agreement with Aflac for administering Connecticut Family and Medical Leave Insurance claims. This agreement was the result of a competitive request for proposals process, in which Aflac was selected based on the evaluation criteria established by the state, which is not publicly available. The state of Connecticut agreed to pay Aflac $72 million[11] in TPA fees over three years for administering claims. According to this agreement, Aflac only assumes claim management duties and does not assume any other administrative tasks, such as premium collection and communications. It is important to note that in these types of outsourcing arrangements, the TPA does not bear the insurance risk (i.e., the chance that benefits will exceed contributions) because this risk is assumed by the State.

If the FAMLI program is self-administered, then the administrative expenses may vary depending on several factors including staffing, infrastructure, claim volumes, and administrative practices. We have researched administrative expenses in other states that have mandated paid family and medical leave benefits, as shown in Table 6 below. The expense ratio in the final row of Table 6 represents the cost of administration as a percentage of total contributions. The state programs included in Table 6 have been effective for many years; therefore, we view the expense ratios as ongoing expenses that do not include start-up costs.

Table 6
Paid Family and Medical Leave Expense Ratios
California, New Jersey, and Rhode Island

Financial Component	California[12] (2020)	New Jersey[13] (2019)	Rhode Island[14] (2021)
A. Contributions ($ millions)	$7,596.3	$510.5	$239.0
B. Administrative Expenses ($ millions)	$383.8	$32.9	$12.6
C. Expense Ratio	**5.1%**	**6.4%**	**5.3%**

We also researched administrative expenses from the Washington Paid Family and Medical Leave program, a more recent program where contributions began on October 1, 2019 and benefits began on January 1, 2020, as shown below in Table 7:

[10] Section 8.3-601-C(III)

[11] Press Release from The Office of The Governor Ned Lamont, July 29, 2021

[12] October 2021 Disability Insurance (DI) Fund Forecast, State of California Employment Development Department, Table 1, page 5

[13] Annual Report for 2019 Family Leave Insurance and Temporary Disability Insurance Programs, New Jersey Department of Labor and Workforce Development, Tables 5 and 9, pages 15 and 19

[14] Statistical & Fiscal Digest 2021, Rhode Island Department of Labor and Training, page 13

Table 7[15] **Washington PFML Expense Ratios**			
Quarter	Contributions ($ millions)	Operating Expenses ($ millions)	Expense Ratio
2Q 2019	$72.0	$10.2	14.2%
3Q 2019	$193.4	$7.3	3.8%
4Q 2019	$162.2	$10.3	6.4%
1Q 2020	$173.3	$13.2	7.6%
2Q 2020	$181.4	$19.9	11.0%
3Q 2020	$166.2	$10.8	6.5%
4Q 2020	$157.2	$10.6	6.7%
1Q 2021	$149.2	$10.3	6.9%
2Q 2021	$188.3	$11.8	6.3%
3Q 2021	$191.2	$8.3	4.3%
4Q 2021	$172.1	$11.2	6.5%
1Q 2022	$170.4	$13.9	8.2%

In Table 7, the expenses in 2019 include start-up costs, because benefits only began in 2020. The average expense ratio for calendar year 2021 was 5.9%, which we consider to be ongoing expenses that do not include start-up costs. The expense ratio increased to 8.2% in 1Q 2022 due, in part, to recent enhancements to administration which included additional staff to support claim management. The Washington PFML contribution rate is expected to increase in 2023, which might lead to average ongoing expense ratios closer to the 5-6% observed in other states.

In our analysis of Maryland FAMLI costs, we assumed ongoing expenses equal to 5% of total contributions for family leaves and 8% of total contributions for medical leaves. Generally speaking, the unit expenses related to medical claim administration tend to be higher than those related to family claim administration because medical claim administration includes initial and ongoing medical reviews that do not apply in the administration of family leave claims.

We also researched start-up costs in other states that have implemented paid family and medical leave programs. The start-up costs reported for the Washington Paid Family and Medical Leave program were equal to $63.2 million[16], and the expected start-up costs reported for the Colorado Family and Medical Insurance program are equal to $51.8 million[17]. In our analysis of Maryland FAMLI costs and funding requirements, we assumed $60 million in start-up costs. We understand that actual start-up costs for the Maryland FAMLI program will depend on several factors, including existing resources, staffing objectives, and administrative practices. If the actual start-up expenses are expected to be significantly higher or lower than $60 million, then the illustrative contribution rates may need to be adjusted.

[15] Advisory Committee Meeting, May 19, 2022, Washington Employment Security Department, slide 8

[16] Preliminary Lessons from Implementing Paid Family & Medical Leave in Washington, Economic Opportunity Institute, 2020

[17] Proposition 118: Paid Family and Medical Leave Insurance Program, page 8

Funding Policies in Other States with PFML Programs

The funding policies in other states with paid family and medical leave programs are summarized below:

California (Medical 1946 / Family 2004)[18]

- Target fund balance in the range of 25% to 50% of previous year's disbursements.
- Contribution rate formula: (145% of Previous Year Disbursements minus Fund Balance) divided by 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.

New York (Medical 1949 / Family 2018)[19]

- Minimum fund balance of $12 million.
- Employee contribution rate for disability insurance is 0.5% of wages up to $0.60 per week.
- State sets PFL contribution rate annually based on historical experience and "sound actuarial principles".

New Jersey (Medical 1948 / Family 2009)[20]

- If the account designated to paying disability 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.

Washington (2020)[21]

- Contribution rates are determined annually based on the fund balance ratio as of September 30th of the previous year.
- The rates range from 0.1% to 0.6% depending on the fund balance ratio. The 2022 rate is 0.6%.
- A solvency surcharge is assessed in years when fund ratio is too low
- A solvency surcharge of 0.2% was assessed in 2022, bringing the contribution rate up to 0.8% for 2023.

Massachusetts (2021)[22]

- 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.

[18] Overview of California's Paid Family Leave Program, State of California Employment Development Department, 2022

[19] New York Workers' Compensation Law, Article 9 Disability Benefits, Sections 209 and 214

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

[21] Washington Legislation RCW 50A.10.030 Premiums-Solvency surcharge-Limitation on local regulation

[22] Massachusetts Laws c.175M Section 7, Family and Employment Security Trust Fund

Appendix A: Data and Assumptions

Maryland employment data was provided to Milliman by the University of Baltimore and was used to develop the assumptions for participating employees and taxable wages. The data included a distribution of employees and annual wages by age and gender. It did not include detail on the number of employees that worked fewer than 680 hours in the last four quarters; therefore, we did not make an adjustment for the FAMLI eligibility threshold in Senate Bill 275 (Chapter 48). The data is from 2022 and we assumed that the number of employees will increase by 1.5% between 2022 and 2025, and that total wages will increase by 13.8% between 2022 and 2025 based on employment and wage growth forecasts from the US Department of Labor[23] and the Social Security Administration[24], respectively. The following table shows the number of employees and the average wages assumed in 2025. Since we did not have individual employee data, we computed the average wages based on the number of employees and total employee wages for every age / gender segment.

Table A.1
Assumed Number of Eligible Employees and Average Monthly Wages in 2025

Age Band	Employees		Average Monthly Wages	
	Female	Male	Female	Male
< 25	133,262	122,224	$2,392	$3,037
25 - 34	266,334	265,324	$4,881	$6,235
35 - 44	282,781	280,328	$6,262	$8,635
45 - 54	280,564	269,952	$6,733	$10,119
55 - 64	254,683	249,581	$6,265	$9,917
65 +	98,675	107,935	$4,829	$7,687

Table A.2 shows the average weekly benefit amounts assumed in 2025. We used the average wages in Table A.1 above along with the FAMLI benefit formula from Senate Bill 275 (Chapter 48) to compute the average weekly benefit amounts shown below. The average weekly benefit amount for employees with average weekly wages above $1,180 is equal to the maximum weekly benefit amount of $1,000.

Table A.2
Assumed Average Weekly Benefit Amounts in 2025

Age Band	Female	Male
< 25	$496	$630
25 - 34	$973	$1,000
35 - 44	$1,000	$1,000
45 - 54	$1,000	$1,000
55 - 64	$1,000	$1,000
65 +	$967	$1,000

[23] https://www.bls.gov/news.release/pdf/ecopro.pdf - News Release Bureau of Labor Statistics, September 8, 2022

[24] https://www.ssa.gov/oact/TR/TRassum.html - Estimates Under the 2022 Trustees Report

We developed morbidity assumptions (i.e., claim incidence rates and average claim durations) based on historical claim experience in states with existing paid family and medical leave programs, adjusted for the Maryland FAMLI benefit design. We used these assumptions to calculate expected FAMLI benefit payments in 2025 through 2027 based on the following formula:

- Expected Benefits = Number of Claims x Average Claim Duration x Average Benefit Amount

The expected claims and expected benefit payments from 2025 through 2027 are provided in Table A.3 below. The benefit payments are highest in 2025 because we assumed additional claims in the first year related to caring for children who are born, fostered, or adopted in 2024.

Table A.3
Expected FAMLI Claims and Benefit Payments

Year	Expected Claims		Expected Benefit Payments ($ million)	
	Family	Medical	Family	Medical
2025	66,025	121,430	$506.0	$917.8
2026	50,671	128,139	$404.3	$1,008.2
2027	53,471	135,219	$443.7	$1,106.5

The expected claims and benefit payments shown above assume wage growth and employment growth in Maryland between 2025 and 2027 based on national forecasts from the Social Security Administration[25] and US Department of Labor[26], respectively. Wage growth results in higher expected benefit payments, with all else equal, because FAMLI benefits replace a percentage of income up to 90%, subject to a maximum benefit amount that is adjusted annually based on changes in the Consumer Price Index. Employment growth results in a greater number of expected claims, with all else equal, and therefore higher benefit payments. The wage and employment growth assumptions used in our analysis are provided in Table A.4:

Table A.4
Wage and Employment Growth Assumptions

Year	Wage Growth	Employment Growth
2025	4.1%	0.5%
2026	4.0%	0.5%
2027	3.9%	0.5%

[25] https://www.ssa.gov/oact/TR/TRassum.html - Estimates Under the 2022 Trustees Report

[26] https://www.bls.gov/news.release/pdf/ecopro.pdf - News Release Bureau of Labor Statistics, September 8, 2022

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