Proposition 118: A Statewide Paid Family & Medical Leave Program For Colorado, but at What Cost?

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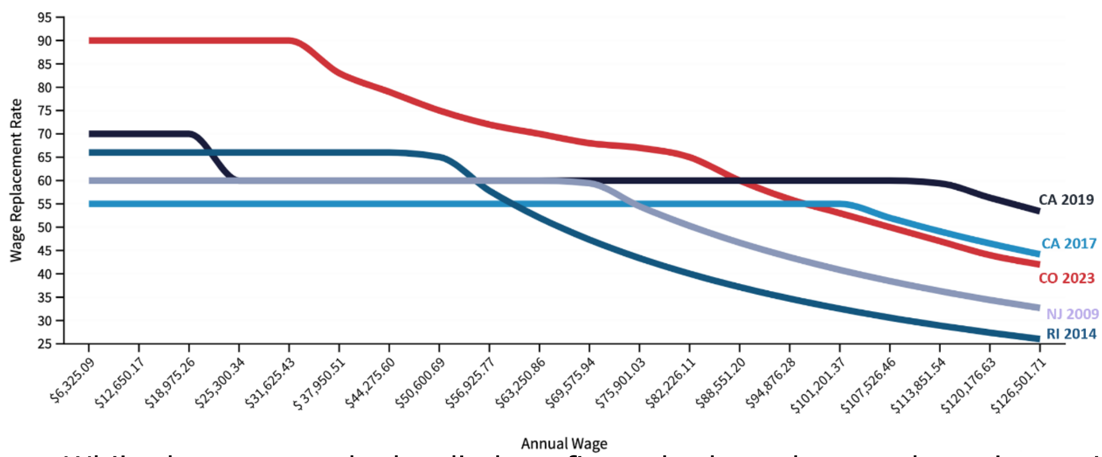
Proposition 118 would create a state-run paid leave insurance benefit program for Colorado. The program would include up **to 90% wage replacement** and **cover up to 12 to 16 weeks** of leave ranging from bonding with a newborn to personal injury, and combine benefits usually offered separately by paid family leave and short-term disability programs.

Compared to other states with existing state-run programs, Colorado's would have some of the most generous benefits in the nation.

Wage Replacement Rate Compared to Other Select States



Who Pays for the Program?

All covered employees would be assessed a fixed premium on their wages, similar to a payroll tax.

Most employees and employers would split the premium 50/50. The premium is set to start at .9% of wages and is capped at 1.2% of wages up to the Social Security wage limit.

While there are undoubtedly benefits to both workers and employers in offering paid leave related benefits, it is critical that voters recognize the potential costs, as those direct and indirect costs are likely why most employers don't currently offer this level of benefit.

Our scenarios show that the cost of the program could grow to between 1.12% of wages and 1.7% of wages. This would represent an **effective income tax increase of 10% to 18%**.

Who Will Use the Program?

The program's claims rate represents the percent of Coloradans that will use the benefit. While there have been varying claims rate ranges offered by academics, researchers and the CO Legislative Council, it is widely acknowledged that utilization will likely increase over time.

Table of Comparison of Actual or Estimated Utilization Levels

	Claims Rate	Average Length of Leave (Weeks)
Low End – Based on University of Denver Study[i]	5%	8.9
Higher End – Based on University of Denver Study	7%	11.4
CA 2019 Actual	5.45%	13.12
NJ 2018 Actual	4.08%	8.80
RI 2017 Actual	7.10%	11.90
Prop 118 Fiscal Note Estimate	3.53%	12.00

What Is the Risk of Too Many People Taking Leave?

If the program starts at a claims rate of 6.2% and an average length of leave of 9.5 weeks, the 2023 premium collections will not be sufficient to cover benefit and administrative costs in the first year of the program in 2024. The legislature would be faced with the difficult decision to either increase the premium (effective tax) on employers or employees, to lower benefits or allow the new Paid Family and Medical Leave Enterprise to issue revenue bonds.

In 2025, once the premium can increase to 1.2%, **the program utilization can at most increase to a utilization level equivalent to a claims rate of 7.5% and an average length of leave of 10.2 weeks while maintaining solvency. Any higher and the program would face insolvency and likely require further legislative action.**

What Is the Cost to Colorado Businesses?

The 2019 corporate income tax net collections on businesses was $655 million.

In 2025, the total premiums to be paid by **employers could total over $1.34 billion.** This would be an **effective increase of the corporate income tax of 204%.**

The one-size-fits-all approach to paid leave will likely have unintended consequences for different types of businesses.

Two Case Studies:

A restaurant with **30 employees** and a **3% margin** would see its margin **reduced by 10%** and **costs increase by $159 per employee** if they would need to replace every worker who takes leave.

A biotech research company that has **200 employees**, wants to offer its employees a **100% wage replacement rate** and has **margin of 15%** will see its **margin decrease by 2.4%** after **paying an additional $545 per employee in net costs** if it only needs to replace 50% of workers on leave.

[i] https://drive.google.com/file/d/1nHrayv2WBJqJxauaoWMUnhL-iKJgz5r8/view