Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 1503 (Chair, Appropriations Committee)(By Request - Departmental - Budget and Management)

Appropriations Finance

State Personnel - Paid Family and Medical Leave

This departmental bill (1) repeals the existing paid parental leave program for Executive Branch employees; (2) establishes new paid family and medical leave (PFML) benefits for Executive Branch employees that generally mirror the benefits available under the Family and Medical Leave Insurance (FAMLI) Program; and (3) requires the Secretary of Budget and Management or the governing body of a public institution of higher education to adopt regulations governing PFML benefits, which include conditions and procedures for requesting and approving PFML to the extent that the regulations do not conflict with the bill. The bill applies to all State employees, including temporary employees, in the Executive Branch. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: State expenditures (all funds) decrease significantly in FY 2026 from not paying employer contributions for FAMLI; special fund revenues decrease significantly as FAMLI does not receive employer and employee contributions for State employees, as discussed below. Beginning in FY 2027, the State continues to experience cost savings (and commensurate special fund revenue reductions) from not paying the FAMLI employer contribution rate, but expenditures increase (all funds) to provide and administer PFML. The net effect on State expenditures cannot be determined absent experience under the bill. Special fund expenditures also decrease beginning in FY 2027 from not paying FAMLI benefits to State employees.

Local Effect: None.

Small Business Effect: The Department of Budget and Management (DBM) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The Secretary of Budget and Management or the governing body of a public institution of higher education may delegate to an employee or an appointing authority any power or duty that is reasonable and proper for the administration of the bill.

If an employee takes leave from work under the bill, the appointing authority, on the expiration of the leave, must restore the employee to the same or an equivalent position of employment.

Quarterly informational wage and hour reports must be filed with the Maryland Department of Labor (MD Labor).

An employee may request to take PFML for the same reasons as under the FAMLI Program, and the requirements for requesting and taking PFML mirror those under the FAMLI Program. However, leave may be denied if an employee does not have good cause for a delay in completing a PFML application, while MD Labor may *delay* or deny benefits under the same circumstances. Nevertheless, an employee may appeal a denial of leave in accordance with FAMLI appeal procedures.

Current Law:

Family and Medical Leave Insurance Program

Chapter 48 of 2022 established the FAMLI Program, to be administered by MD Labor. Chapters 258 and 259 of 2023 and Chapters 266 and 267 of 2024 made several modifications to the program, including delaying the program's start date. Employer, employee, and self-employed individual contributions to the program begin July 1, 2025, and claims for benefits begin July 1, 2026.

The program generally provides up to 12 weeks of benefits to a covered individual who is taking leave from employment due to caring for or bonding with certain family members, the individual's own serious health condition, or a qualifying exigency arising out of a family member's military deployment. The weekly benefit is based on an individual's average weekly wage and is indexed to inflation.

Family and Medical Leave Insurance Fund: Chapter 48 also establishes the FAMLI Fund, which is a special fund administered by the Secretary of Labor consisting of employee, employer, and self-employed individual contributions, specified application and renewal fees, money collected from specified assessments and hearings, and other specified sources of funds. Funds must be used to pay FAMLI benefits and may be used to pay for public education on the FAMLI Program and any other costs associated with the initial implementation and ongoing administration of the FAMLI Program. Employer, employee, and self-employed individual contributions to the program capitalize the fund and begin July 1, 2025; while claims for benefits paid out from the fund begin July 1, 2026.

Contributions: Required contributions to the program, which are shared equally between employers and employees, are also based on employee wages, although employers with 14 or fewer employees are not required to contribute. The total rate of contribution may not exceed 1.2% of an employee's wages up to and including the Social Security wage base, and the rate is annually adjusted based on a required cost analysis. In September 2023, MD Labor set the initial total rate of contribution at 0.9% of covered wages. This rate will apply for fiscal 2026; thus, beginning July 1, 2025, each employee, each employer with 15 or more employees, and each participating self-employed individual must pay to the Secretary of Labor 0.9% of covered wages up to the Social Security cap, equally divided between employees and employers (self-employed individuals pay the total 0.9% contribution rate).

Benefits: A covered individual may not receive more than 12 weeks of benefits in an application year, except under specified circumstances. A covered individual may take eligible leave on an intermittent leave schedule under specified conditions and may not be required to use or exhaust paid vacation, paid sick leave, or other paid time off under an employer policy before, or while, receiving FAMLI benefits. The weekly benefit payable to a covered individual is calculated based on the employee's average weekly wage and ranges from a minimum of $50 to a maximum of $1,000 for the six-month period beginning July 1, 2026. Beginning January 1, 2027, the maximum weekly benefit must be increased by the annual percentage growth in the Consumer Price Index, subject to a determination by the Board of Public Works based on expected economic conditions.

Private Employer Plans: An employer authorized by the Secretary of Labor may satisfy requirements of the FAMLI Program through a private plan consisting of employer-provided benefits or insurance through an insurer that holds a certificate of authority by the Maryland Insurance Commissioner if the private employer plan is provided to all of the employer's eligible employees and meets or exceeds the rights, protections, and benefits provided to a covered employee under the FAMLI Program.

Paid Parental Leave

Separate from the FAMLI Program, Chapter 752 of 2018 provides up to 60 days of paid parental leave to an employee in the Executive Branch of State government who is the primary caregiver responsible for the care and nurturing of a child to care for the child immediately following either the child's birth or the adoption of a child who is younger than age six. An employee entitled to parental leave may use available accrued annual leave and personal leave. If that leave is less than 60 days, the State agency that employs the employee must provide the employee with additional paid leave to attain 60 days of parental leave.

Background: In fall 2024, DBM engaged in collective bargaining regarding the FAMLI Program with exclusive representatives of State employees. The parties reached agreement about the FAMLI Program such that PFML is available beginning July 1, 2026, without eligibility and contribution requirements, in exchange for eliminating the paid parental leave program. Legislation is needed to implement the agreed-upon terms, and this bill implements that agreement.

State Fiscal Effect:

Repealing Paid Parental Leave

This analysis assumes that paid parental leave runs concurrently with FAMLI under current law through fiscal 2026. Thus, there are no cost savings from repealing paid parental leave benefits to Executive Branch employees beginning July 1, 2026, which is when Executive Branch employees are entitled to take PFML to bond or care for a newborn child or a child placed for adoption, foster care, or kinship care with the employee.

Family and Medical Leave Insurance vs. Paid Family and Medical Leave

Under current law for the FAMLI Program, an employer may satisfy the requirements of the FAMLI Program through a private employer plan consisting of employer-provided benefits (self-insurance) or insurance through an authorized insurer. By adopting the framework of the FAMLI Program, the bill creates the structure for the State to self-insure rather than participate in the public FAMLI plan. Thus, even though the bill does not take effect until fiscal 2027, State expenditures (all funds) decrease significantly beginning in fiscal 2026 from not paying the employer portion of the FAMLI contribution rate. Special fund revenues for the FAMLI Fund decrease by twice as much, reflecting foregone State employee contributions as well. Based on prior year data, potential cost savings for the State could exceed $35 million in total funds (almost $12 million in general funds) on an annual basis based on the employer portion (50%) of 0.9% of covered wages. As noted above, special fund revenues decrease by twice as much (reflecting foregone employee contributions as well). Only 75% of annual savings and foregone FAMLI Fund revenues occur in fiscal 2026 due to the timing of when FAMLI contribution payments are due.

The FAMLI Program requires an employee to work at least 680 hours performing services under employment located in the State over the four most recently completed calendar quarters for an employee to be eligible for FAMLI leave, but the bill has no minimum hours required for Executive Branch employees to be eligible for PFML. Thus, the expanded application of employees qualifying for PFML increases State expenditures (all funds) beginning in fiscal 2027.

Under the FAMLI Program, a covered individual is only entitled to a portion of the employee's average weekly wage, which is paid through the FAMLI Fund if the employer does not participate in a private plan, while Executive Branch employees are entitled to fully paid leave under the bill. Thus, State expenditures (all funds) increase potentially significantly from the State providing fully paid leave benefits instead of the FAMLI Fund paying benefits for partial wage replacement for employees on FAMLI leave, during which time the State would presumably not be paying those employees. However, since the State already provides fully paid parental leave to Executive Branch employees under current law, some of this effect is mitigated. Additionally, State expenditures (all funds) may increase to administer PFML. For example, DBM notes it needs to contract with a third-party benefit administrator and hire one or two additional employees to administer leave. However, since the State as an employer is already required to comply with FAMLI leave, it is unknown to what extent, if any, the costs of administering PFML exceed those of State agencies administering FAMLI leave under current law.

The net effect on State expenditures beginning in fiscal 2027 is indeterminate as it depends on whether the cost savings from not paying the employer portion of the FAMLI contribution rate is greater than the additional costs stemming from employees taking PFML.

Self-insurance under Family and Medical Leave Insurance and State Expenditures

The fiscal effects described in this analysis (*e.g.*, foregone FAMLI contributions by the State, reduced revenues and expenditures for the FAMLI Fund) are based on the assumption that, absent the collective bargaining agreement and the bill, the State would have participated in FAMLI instead of self-insuring. To the extent that the State always intended to participate in a private employer plan and opt out of FAMLI, much of the fiscal effect is mitigated. However, previous fiscal and policy notes related to FAMLI have generally assumed State participation, and enhancing paid leave benefits to conform to FAMLI requires statutory changes.

Additional Comments: The bill takes effect July 1, 2026, which is one year after FAMLI contributions are required to be made under current law. As current law authorizes private employer plans under the FAMLI Program and the bill establishes PFML for State employees concurrent when FAMLI benefits commence, this analysis assumes the State and State employees do not have to make FAMLI contributions beginning July 1, 2025.

The General Assembly passed House Bill 102 of 2025, which delays the FAMLI Program's start dates by 18 months to January 1, 2027, for required contributions and by at least six months to a date that is between January 1, 2027, and January 3, 2028, as determined and announced by the Secretary of Labor, for benefit payments. The impact of these delays under House Bill 102 has not been accounted for in this analysis.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): University System of Maryland; Department of Budget and Management; Maryland Department of Labor; Maryland Department of Transportation; Department of Legislative Services

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: State Personnel - Paid Family and Medical Leave

BILL NUMBER: HB 1503

PREPARED BY: Dana Phillips DMB

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

OR

____ WILL HAVE A MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES