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Why a Market-Based Approach to Family & Medical Leave Instead of a State-Run Plan

What it is

- Employers required to provide the benefit (exceptions could be made for very small businesses and those with seasonal workforces).
  - Employers can choose whether to cover the benefit through existing disability and PTO programs, purchase a newly-created insurance product from carriers, or self-insure.
  - Employers that already offer PFML can fulfill the requirement by demonstrating that their existing coverage is at least as good as the state-required core benefit.
  - Requiring the benefit ensures that most workers are covered regardless of their job.
- Core benefit parameters outlined in statute; all employers' plans must conform.
  - Both employers and employees may purchase additional coverages, subject to certain restrictions. This approach is similar to that already used in the short-term disability market.
  - Benefits are a policy decision to be determined by stakeholders and legislators, not insurers. However, we urge policymakers to avoid vague definitions (e.g., who qualifies as family) that would make claims determinations difficult.
- Pricing would reflect age and demographic factors (just as in short-term disability), based on 13 broad industry sectors. Insurers must understand the risk profile of those using the benefit in order to know how to insure it.
- Competitive market, with Pinnacol acting as the carrier of last resort in addition to participating in that competitive market.

Why a market-based approach instead of a state-run plan?

- *Speed to market*. Carriers can be ready to launch PFML products in 18-24 months after enactment of legislation (allowing sufficient time for rule-making and product development), versus 3-4 years for a state-run plan.
- *No premium assessments before employees are able to access the benefit.* A state-run plan would require employees and/or employers to pay into the fund for 1-2 years before they can file for benefits. A market-based approach makes benefits available as soon as the product is purchased.
- *Significantly lower financial risk to the state.* The financial risk falls solely to the private market. The cost of the regulatory structure – which will be significantly less than that of a state-run plan – will be funded through assessments on carriers. A state-run plan would require a substantial expansion of government employees.
- *Sustainability.* Solvency of a state fund is not a concern with a private market approach, nor is ongoing viability. We anticipate that multiple carriers will offer the product. Indeed, Standard Insurance and Unum have already expressed interest.
- *Competitive pricing and customer service.* Because benefits will be set in statute, carriers can only compete on price and service. Government agencies, despite their many strengths, are not designed for customer service or cost-savings.
- *Cost containment and flexibility.* Using a "core/buy-up" approach allows for lower mandated costs while allowing employers to provide additional coverage. Independent carriers can generally be more nimble in tailoring their pricing and service to changing customer needs and market behaviors than government agencies—especially a new agency.

For more information:
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