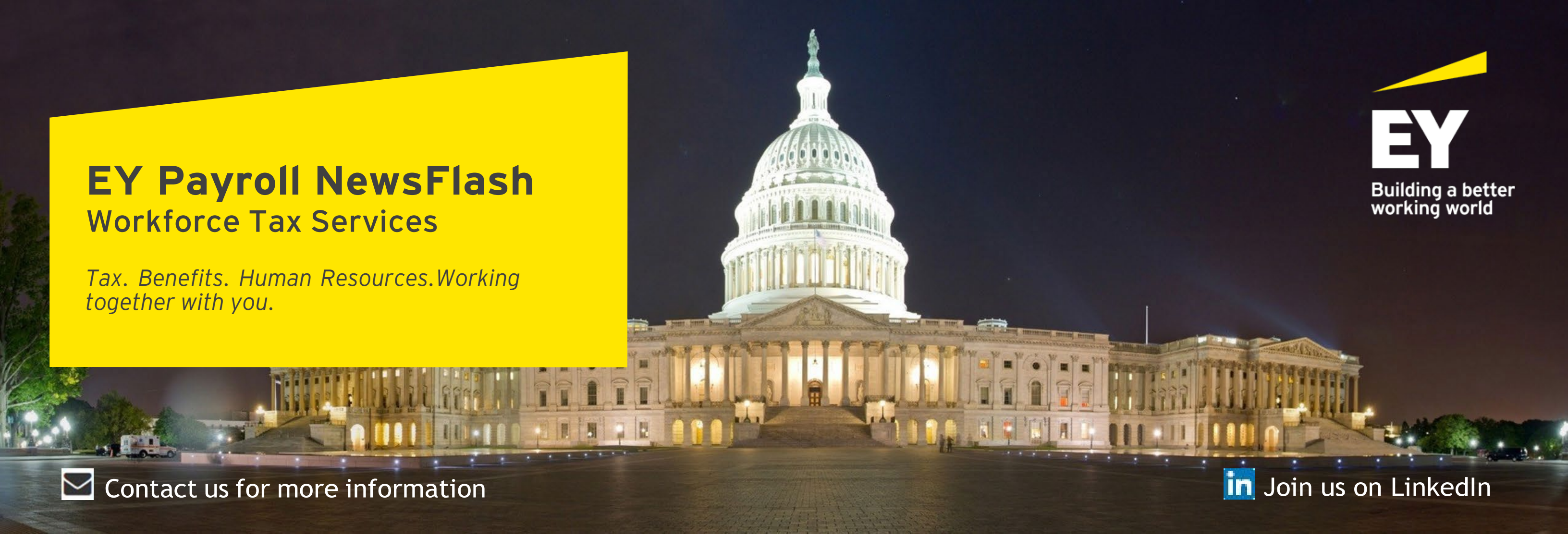

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Minnesota law establishes paid family and medical insurance program with contributions and benefits starting January 1, 2026

- *H.F. 2, enacted in 2023, establishes a Minnesota state paid family and medical leave insurance (PFML) program with participation required by all Minnesota employers, regardless of size.*

- *Unlike other state PFML programs, contributions start on January 1, 2026, the same time that employees are eligible for PFML benefits. Because the state is seeding funds into the program so that contributions do not need to start before benefits are available, employers will begin to file quarterly reports with the Minnesota Department of Economic Development (DEED) effective July 1, 2025, to assist the DEED in determining funding requirements.*

- *The contribution rate for 2026 is 0.7% up to the Social Security wage limit; however, a lower wage cap applies to small businesses. Employers may require that employees pay up to 50% of the contribution.*

- *Employers may meet their PFML obligations through a private insurance plan approved by the state and, if covered by a private plan, are not required to pay the state PFML contributions.*

On May 25, 2023, Governor Tim Waltz signed into law H.F. 2, which establishes a state PFML program to be administered by a new division of the Minnesota DEED. The program will initially be funded with state revenue so that PFML contributions and benefits both start on January 1, 2026. However, for the state to determine initial funding for the start of the program, employers will be required to file quarterly reports with the DEED effective July 1, 2025.

The program provides up to 20 weeks of PFML benefits for an employee's own serious health condition and for other reasons including the care of an employee's family member, bonding, safety or a qualifying exigency.

Covered employer
Participation in Minnesota's PFML program is required of all Minnesota employers and includes:

- Any person, type of organization, or entity, including any partnership, association, trust, estate, joint stock company, insurance company, limited liability company, or corporation, whether domestic or foreign, or the receiver, trustee in bankruptcy, trustee, or the legal representative of a deceased person, having any individual in covered employment

- The state, state agencies, Minnesota state colleges and universities, University of Minnesota, and other statewide public systems

- Any municipality or local government entity, including but not limited to a county, city, town, school district, Metropolitan Council, Metropolitan Airports Commission, housing and redevelopment authority, port authority, economic development authority, sports facilities authority, board or commission, joint powers board or organization created under Minnesota Statutes 2022, section 471.59, destination medical center corporation, municipal corporation, quasi-municipal corporation, or other political subdivision

- Charter schools

A covered employer does not include the federal government.

Covered employees
With limited exceptions, all Minnesota employees (except seasonal employees not covered under the law) meeting the financial eligibility requirements are eligible for PFML. Independent contractors may voluntarily participate.

Contribution rate
Effective January 1, 2026, the contribution rates are as follows:

- 0.7% for an employer participating in both family and medical benefit programs
- 0.4% for an employer participating in only the medical benefit program with an approved private plan for the family benefit program
- 0.3% for an employer participating in only the family benefit program with an approved private plan for the medical benefit program

Beginning January 1, 2027, and by July 31st of each year thereafter, the DEED must adjust the annual contribution rates; however, in no year can the contribution rate exceed 1.2% of taxable wages paid to employees.

Employers may deduct up to 50% of the contribution from employees' wages except that the *deduction cannot cause the employee's wage to fall below the minimum wage required by law*. Further, deductions must be in equal proportion to the contributions paid based on the wages of that employee.

Effective January 1, 2026, employers must remit contributions electronically on a quarterly basis.

Contribution wage cap
Except for small employers, contributions are paid up to the federal Social Security wage limit.

House Research Summary of H.F. 2 explains that the contribution cap for small employers depends on the number of employees as follows:

- For those with one to nine employees, taxable wages subject to contribution are reduced each quarter by $12,500 times the number of employees (so, for five employees, a reduction of $62,500 per quarter or $250,000 per year, or for nine employees, $112,500 per quarter or $450,000 per year)

- For those with 10 to 20 employees, the taxable wages subject to contribution are reduced by $120,000 each quarter or $480,000 per year

- For those with 21 to 29 employees, the $120,000 per quarter exclusion is reduced by $12,000 per employee over 20 employees (so, for 25 employees, the resulting reduction is $60,000 per quarter or $240,000 per year, or for 29 employees, $20,000 per quarter or $80,000 per year)

NOTE: The reduction in the contribution wage cap is solely for the benefit of the small employer. Small employers may deduct from employees' wages 50% of the contribution paid by large employers.

Taxable wages
Taxable wages for purposes of Minnesota PFML contributions follows the same definition that applies for Minnesota state unemployment insurance purposes (*Minnesota Statutes 2022, section 268.035, subdivision 29).*

The law explains "wages paid" as follows:

- The wages actually paid, or that have been credited to, or set apart, so that payment and disposition is under the control of the employee

- Wage payments delayed beyond the regularly scheduled pay date are wages paid on the missed pay date

- Back pay is wages paid on the date of actual payment

- Any wages earned but not paid with no scheduled date of payment are wages paid on the last day of employment; otherwise, wages paid does not include wages earned but not paid

Wage detail reporting
Although PFML contributions will not begin until January 1, 2026, effective July 1, 2025, employers are required to electronically file quarterly wage detail reports with the DEED. Reports filed in 2025 do not require PFML contributions, but instead will be used by the DEED to determine the necessary funding for the start of the program.

Wage detail reports are due on or before the last day of the month following the end of the calendar quarter.

The wage detail report must include for each employee in covered employment and for each seasonal employee during the calendar quarter:

- The employee's name
- The total wages paid to the employee
- Total number of paid hours worked

In addition, the wage detail report must include the number of employees employed during the payroll period that includes the twelfth day of each calendar month and, if required by the DEED, the report must be broken down by business location and separate business unit.

Pay stub requirements
Employee pay stubs must include the total PFML contribution made by the employer and the total PFML contribution deducted from the employee's wages.

Employer notice requirements
Effective November 1, 2025, employers must post in a conspicuous place at each of its premises a notice prepared by the DEED providing notice of the availability of PFML benefits. This workplace notice must be in English and each other language that is the primary language of five or more employees or independent contractors of the workplace.

Employers must also issue to each employee not more than 30 days from the beginning date of the employee's employment, or 30 days before contribution collection begins, whichever is later, the following written information, by paper, or electronically, in the primary language of the employee:

- An explanation of the availability of family and medical leave benefits, including rights to reinstatement and continuation of health insurance

- An explanation that PFML benefits are not available to seasonal employees
- The premium the employer deducts from wages
- The employer's premium amount and obligations
- The name and mailing address of the employer
- The identification number assigned to the employer by the DEED
- Instructions on how employees may file a claim for PFML benefits
- The mailing address, e-mail address and telephone number of the DEED
- Any other information required by the DEED

Delivery of this notice is deemed made when an employee provides written or electronic acknowledgment of receipt of the information or signs a statement refusing to sign the acknowledgment.

Private plans

Employers may meet their PFML obligations through a private plan for both family and medical, medical only, or family only. Private plans must be approved by the DEED and the plan terms must, at minimum, be equal to that of the state PFML plan.

An employer with an approved private plan is responsible for a private plan approval and oversight fee of $250 for employers with fewer than 50 employees, $500 for employers with 50 to 499 employees, and $1,000 for employers with 500 or more employees. The employer must pay this fee upon initial application for private plan approval, and any time the employer applies to amend the private plan.

A successor employer may terminate a private PFML plan with notice to the DEED and within 90 days from the date of the acquisition.

Ernst & Young LLP insights

Minnesota has taken a unique approach to its PFML program, most notably: (1) setting the start date for contributions and PFML benefits at the same time and (2) lowering the contribution wage cap for small employers but not their employees.

The lower contribution wage cap could present a challenge to small employers in determining the PFML contributions they will pay and deduct. Further, considering that large employers and their employees share equally in the PFML cost and that employer contributions are required to be reported on pay stubs, employees of small businesses could question why their PFML contributions are higher than their employer's contribution.

Minnesota joins 14 other jurisdictions (California, Connecticut, Colorado, Delaware, District of Columbia, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Vermont and Washington) that are now operating, or will soon be operating, paid family and medical leave insurance programs.

For more information about these state plans, see our *2023 US employment tax rates and limits* special report.

Contact us for more information

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