INDIANA COMMUNITY ACTION POVERTY INSTITUTE
Research and Public Policy

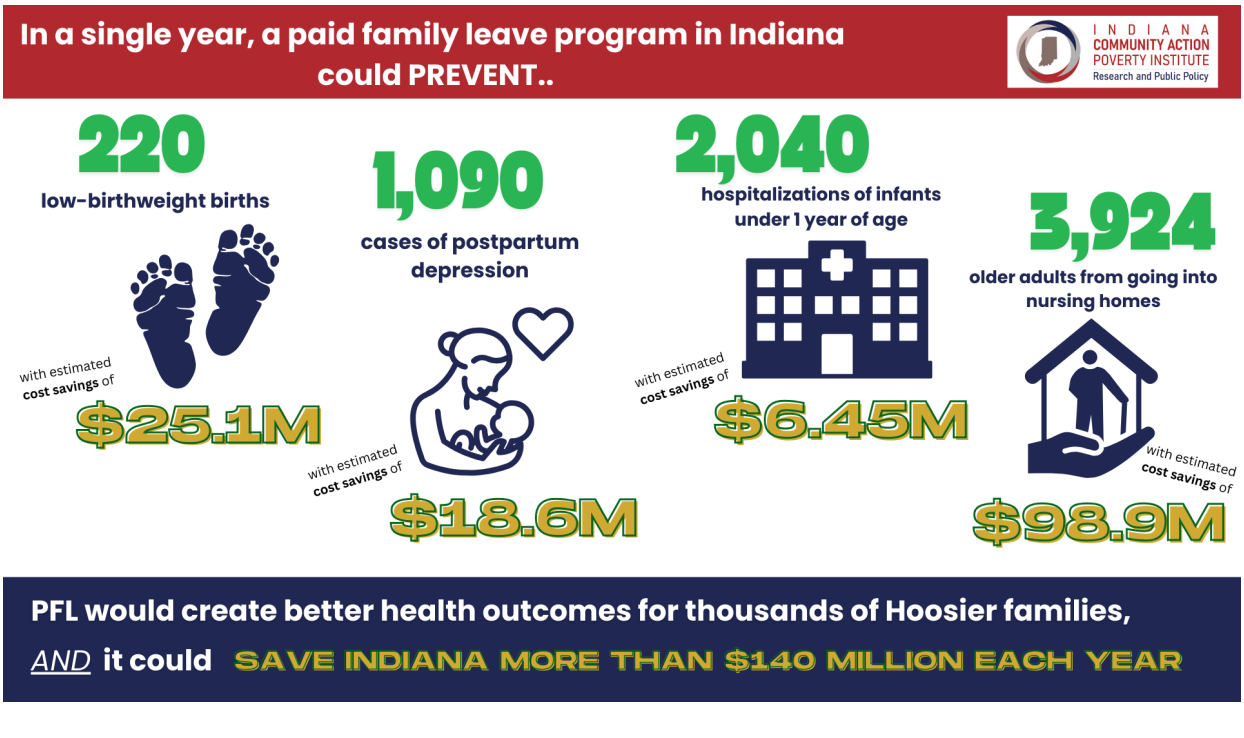
Paid Family Leave Program Cost Estimates

State adoption of paid leave programs and the variations between programs make it possible to model the costs for Indiana. Sean Craig, Data Manager at the Prenatal-to-3 Policy Impact Center at Vanderbilt University, prepared the following estimates for the Institute in September 2025.

	Parental Leave 8 Weeks	Parental Leave 12 Weeks	Family leave 8 weeks
Estimated Annual Cost[1]	$206.9 million	$257.34 million	$259.26 million
Weekly Payroll Deduction for Average Worker (Employee-only)	**$1.92-$2.56/week** *(0.15%-0.20% of pay)*		
Weekly Payroll Deduction for Average Worker (Employer-Employee Split)	**$0.96-$1.28/week** *(0.08%-0.10% of pay each)*		

Estimates of Potential Savings

Below, we estimate potential cost savings in Indiana using a national analysis[2] of the potential health-related effects and cost savings of paid family leave programs and Indiana-specific population data. [3]



[1] *All cost estimates assume that during a qualifying leave, workers receive 90% of their earned wages under one-half of Indiana Average Weekly Wage (AWW), plus 50% of any additional wages up to $1278/week (Indiana Average Weekly Wage). Eligibility is limited to workers who earned at least $6,300 during the preceding year.*

[2] *Mason, J. (2021). Paid leave would cut health care costs. National Partnership for Women and Families. https://nationalpartnership.org/wp-content/uploads/2023/02/paid-leave-would-cut-health-care-costs.pdf*

[3] *For a detailed description of assumptions used, please contact institute@incap.org*

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Analysis of Three Modeled Paid Leave Family Leave Program Designs in Indiana

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Date: September 22, 2025

This memo compares program costs, including benefits paid and administrative costs, for three paid family leave (PFL) program designs in Indiana. Cost estimates were obtained using the 2023 Microsimulation Model on Worker Leave, a tool published by the US Department of Labor (DOL). Additionally, we estimate the payroll taxes required to fund each design.

Key Takeaways

- We estimate that Design 1 would cost approximately $219 million between benefit costs, administrative costs, and funding reserves.
- PFML is funded entirely by employer/worker contributions at no additional cost to the state.
- A total premium rate of 0.2% or less would be sufficient to fund all modeled PFL program designs. If premiums are split evenly between workers and employers, this amounts to $67 per year for a worker at the statutory average weekly wage for 2025.

Modeled Program Designs

We considered three variations on a PFL program design for Indiana. For all designs, benefits are calculated using the process described in Indiana S.B. 115 (2025). Workers receive a benefit equal to 90% of wages under one-half of Indiana Average Weekly Wage (AWW), plus 50% of any additional wages. Benefits are capped at 100% of the AWW ($1,278 in 2025). Eligibility is limited to workers who earned at least $6,300 during the preceding year. Government employees are included. For cost-estimation purposes, cost estimates do not include self-employed workers.[1]

Designs differ in the duration and types of leave available. A summary appears in the table below. Design 1 authorizes eight weeks of parental (bonding) leave. Design 2 increases parental leave to 12 weeks, while Design 3 instead allows caregiving leave in addition to bonding leave.

Design	Wage Replacement	Weeks (Bonding)	Weeks (Caregiving)
1	Marginal 90%/50%	8	0
2	Marginal 90%/50%	12	0
3	Marginal 90%/50%	8	8

To be eligible for PFL under each design, a worker must earn at least $6,300 during the year prior to taking leave.

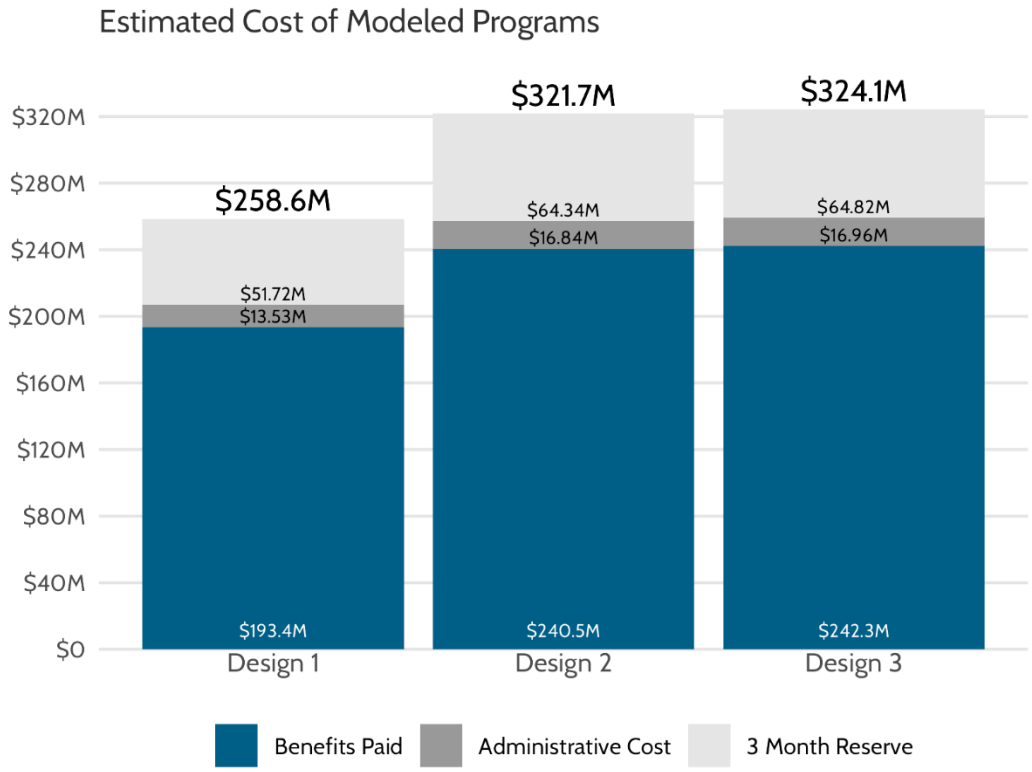
The table below compares the benefits paid under each of the three designs. To facilitate comparison, we simulated weekly benefits for a worker earning the Indiana minimum wage of $7.25 per hour and for a worker earning the official Indiana Average Weekly Wage for 2025.[2] The total benefit assumes that the worker takes the maximum leave length available under each design.

Wage Level	Weekly Earnings	Weekly Benefit	Total (8 Weeks)	Total (12 Weeks)
Minimum Wage	$290	$261	$2,088	$3,132
Average Wage	$1,278	$895	$7,152	$10,740

[1] Under most paid leave programs, self-employed workers are not eligible to claim benefits and do not pay premiums unless they explicitly opt in to the program. Functionally, the designs estimated for this analysis assume zero opt-ins. In practice, rates of self-employment opt-ins range from 0.06% to 7.4% of self-employed persons, according to a 2023 report from the Center for American Progress.
[2] Indiana Code Sec. 23-3-3-22 (2024).

Simulated Program Costs

We simulated the cost of benefits paid under each modeled PFL program design using the 2023 Microsimulation Model on Worker Leave from the US Department of Labor (DOL).[3,4] Simulations are specific to Indiana.



Source: Estimates from US Department of Labor's Microsimulation Model of Worker Leave

[3] IMPAQ International (2023). Microsimulation Model on Worker Leave. Chief Evaluation Office. U.S. Department of Labor.

[4] The designs all assume take-up rates of 2.25% (own health), 0.48% (maternity), 2.25% (new child/bonding), 0.2% (ill child), 0.2% (ill spouse), and 0.2% (ill parent). These take-up rates are based recommendations from the DOL based on analysis of existing programs. As the DOL tool relies on wage data from 2020, we estimated each design using state parameters current as of that year (e.g., AWW) and scaling the resultant output to account for growth between 2020 and 2025. However, because Indiana's AAW does not appear to have tracked real wage growth, scaling used Bureau of Labor Statistics estimates of the average weekly wage, rather than the statutory any leave program would likely use for benefit computation. This may inflate estimates slightly.

Simulated program costs for each design appear above. Total program costs include the costs of paying benefits and administering the program, as well as additional reserve funds to ensure program solvency and allow for growth.

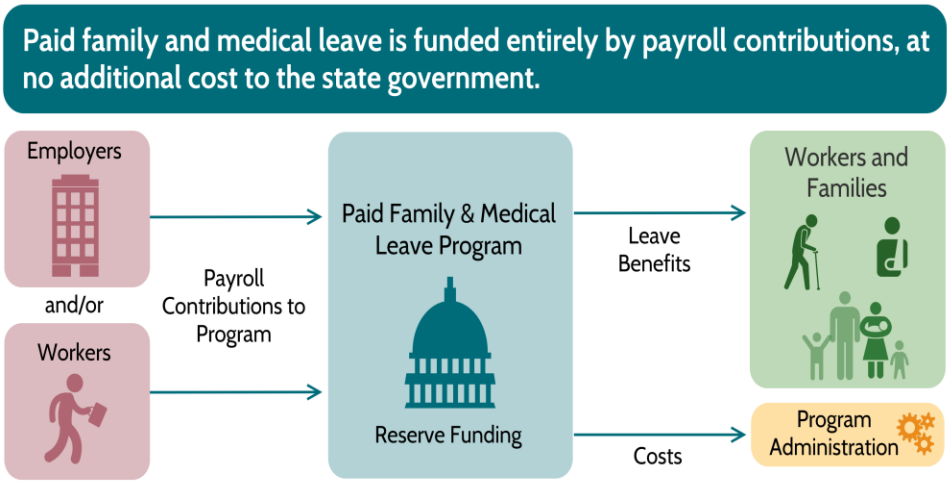
The estimated costs for benefits range from $193 million (Design 1) to $242 million (Design 3). In addition to benefit costs, the total program cost includes administrative costs equal to 7% of benefits paid, as well as additional funds for a 3-month reserve. The 3-month reserve is determined as 25% of the program costs. Total program costs range from $259 million (Design 1) to $324 million (Design 3).

Due to a limitation in its design, the DOL tool is unable to directly implement cumulative limits on the duration of leave. Instead, limits are applied only to each type of leave. This means that for Design 3 it was possible for some simulated leave takers to exceed eight total weeks of leave by taking separate spells of bonding and caregiving leave. Thus, the benefit cost for Design 3 may be modestly inflated. Given the uncertainty inherent in estimation procedures, we recommend viewing the reported cost for Design 3 as a *higher-end* estimate.

Estimated Premium Rates

The state government does not provide ongoing funding for statewide paid leave programs. Instead, these programs are financed using dedicated funds that generate revenue through premiums collected from workers and/or employers. With a few exceptions, all workers pay premiums. Premiums cover the cost of benefits and program administration as well as any required reserve funds.

With premiums, three design choices are important: the premium rate as a percentage of wages, how premiums are split between workers and employers, and the maximum amount of workers' wages subject to the premium (i.e., the contribution wage base).



Premium rates fluctuate from year to year as necessary to maintain the solvency of the program fund, often with a cap on the maximum premium rate permitted. For programs offering both family leave and medical leave, typical premium rates range between about 0.5% and about 1% of wages. In several states, including all of the most recently adopted programs (Delaware, Maine, Maryland, and Minnesota), workers and employers share equal responsibility for paying the total premium. In these states, a worker pays half of the total premium needed to fund the program.

We simulated a variety of premiums to determine the rate necessary to fund each of the three designs. Simulations assume that the contribution wage base is the same as is used for Social Security ($176,100 in 2025), which means premiums do not apply to earnings above that threshold. This is the most common contribution wage base used across current statewide paid leave programs, though states are beginning to experiment with collecting premiums on all wages, which permits somewhat lower premium rates overall.

The table below reports selected premium estimates and indicates the total premium rate, the rate a worker would pay if premiums were split evenly, the contribution wage base, and the estimated total revenue. Finally, we indicate whether the estimated revenue would be sufficient to fund a given design.

Total Premium Rate	0.15%	0.20%
Contribution Wage Base	$176,100	$176,100
Estimated Revenue	$247M	$332M
Annual Total Premium by Wage (50/50 worker's share in parenthesis)		
2080 hours at Minimum Wage	$23 ($11)	$30 ($15)
52 weeks at statutory Average Weekly Wage	$100 ($50)	$133 ($67)
Premium revenue sufficient to cover total program cost?		
Design 1	Almost	Yes
Design 2	No	Yes
Design 3	No	Yes

Annual premiums in parentheses reflect the worker's share of a 50/50 premium split with their employer. Premium estimates were calculated in 2020 dollars and scaled for wage growth until 2025. Because Indiana's statutory AWW does not appear to have tracked real wage growth since 2020, all estimates reported in this memo are scaled using Bureau of Labor Statistics weekly wage figures. This should produce more accurate premium estimates than relying on the official AWW.

We find that all three designs could be funded with a total premium rate at or below 0.2% of wages. A premium rate of 0.15% of wages nearly produces enough estimated revenue to cover the cost of Design 1 (within the margin of error). With the premium at 0.2% of wages and an even split in responsibility between workers and employers, a full-time minimum wage worker would pay $15 per year in premiums. A full-time worker earning the statutory average weekly wage would pay $67 per year.