

# Minnesota Paid Family and Medical Leave: Trade-offs and Emerging Challenges

Tiange (Sheryl) Du, PhD

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## Executive Summary

Minnesota's Paid Family and Medical Leave (PFML) program reflects a clear and widely supported goal: expanding access to paid leave for workers facing medical and caregiving needs. As a statewide, mandatory insurance system, the program seeks to standardize benefits across the labor force and reduce income instability during periods of leave.

At the same time, evidence from early-adopting states suggests that such systems involve meaningful trade-offs that are often less visible at the design stage. This brief highlights three areas where these trade-offs appear most consistently: burdens on small businesses, administrative complexity, and fiscal sustainability. It also discusses several additional considerations—such as workplace adjustments, labor-market responses, and compliance coordination—that, while more difficult to quantify, may shape how the program operates in practice.

Taken together, the evidence suggests that the challenges observed in PFML programs are not limited to early implementation but reflect ongoing features of statewide mandates. While Minnesota's program includes provisions intended to address some of these issues, its structure reduces flexibility in how leave benefits are designed and delivered, limiting the ability of employers and workers to make arrangements that best fit their needs. These constraints highlight a broader concern: policies that rely on uniform, state-run systems may expand access, but they also narrow economic choice and introduce trade-offs that are often underappreciated in policy design.

## Background

Beginning January 1, 2026, Minnesota's PFML program establishes a statewide insurance system that provides partial wage replacement and job protection for workers experiencing qualifying medical or family-related events. The program applies to most employers regardless of size and is funded through a payroll premium shared between employers and employees.

Eligible workers may receive between 55 and 90 percent of wages, up to a capped amount, for up to 12 weeks of medical leave or 12 weeks of family leave annually (up to 20 weeks if both are used). Employers are generally required to restore workers to their positions and maintain benefits during leave periods. By design, the program expands access and standardizes benefits. However, it also introduces new administrative responsibilities and redistributes costs across employers, workers, and the state.

## Key Policy Implication

### 1) Disproportionate Burdens on Small Businesses

Small businesses often lack the staffing capacity to manage extended employee absences. Evidence from national surveys shows that when an employee takes extended time off, small business owners typically take on more work themselves (55%), assign work temporarily to other employees (44%), cover work some other way (34%) and hire temporary replacements (27%).<sup>1</sup> Local reporting from northern Minnesota highlights concerns that the paid family and medical leave mandate would impose additional financial and administrative burdens on small businesses already facing rising labor, food, and energy costs. Restaurant owners and hospitality leaders warn that payroll taxes and extended leave requirements could force price increases, reduce hours or staffing, delay expansion plans, or crowd out other employee benefits tailored to their workforce.<sup>2</sup> These concerns suggest that, while the policy is well-intentioned, its uniform structure may place relatively greater strain on small and service-sector businesses. Importantly, these pressures are not solely a matter of implementation but reflect differences in firms' capacity to absorb extended absences under a standardized, statewide mandate.

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<sup>1</sup> <https://nationalpartnership.org/wp-content/uploads/small-businesses-support-paid-family-medical-leave-report-2024.pdf>

<sup>2</sup> <https://www.duluthnewstribune.com/business/proposed-paid-leave-mandates-a-hot-topic-for-northland-businesses>

## 2) Administrative Capacity and Program Coordination

Administrative capacity is a recurring challenge in state-run paid leave programs, particularly during early implementation. Oregon’s experience, for example, indicates that workers waited an average of nearly a month between application and first benefit payment, which may create financial strain for households relying on timely wage replacement.<sup>3</sup> Public reporting and user experiences in other states suggest that similar delays have occurred elsewhere, indicating that such issues may not be isolated.

At the same time, program coordination across benefit systems can present additional challenges. An audit in Washington State found instances where individuals received both paid family leave and unemployment insurance simultaneously, reflecting gaps in cross-program verification.<sup>4</sup> While these issues are often associated with implementation capacity, they also highlight the broader complexity of administering overlapping social insurance programs. Taken together, these experiences suggest that while some administrative challenges may diminish over time, others—particularly those related to coordination, verification, and timely processing—are likely to remain ongoing considerations in state-run systems rather than one-time startup issues.

## 3) Fiscal Sustainability and Premium Volatility

Washington State’s experience illustrates how paid family and medical leave programs can face fiscal pressure as usage expands. In 2023, benefit claims exceeded premium collections, creating a deficit that required a \$200 million legislative infusion to restore solvency. That intervention allowed the state to temporarily lower premium rates in 2024, but continued growth in benefit payments, combined with reduced revenues, contributed to a subsequent increase in premiums for 2025.<sup>5</sup> Minnesota’s program incorporates additional financial safeguards—including a cap on premium rates and reduced premiums for qualifying small employers<sup>6</sup>—which may help limit similar volatility. However, Washington’s experience suggests that even well-designed systems can face challenges in aligning revenues with evolving demand. As participation grows and usage patterns become clearer over time, adjustments to premiums or program parameters may be necessary, raising questions about long-term cost predictability.

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<sup>3</sup> <https://paidleave.oregon.gov/bulletins/2024-03-26/march-2024-bulletin/>

<sup>4</sup> <https://washingtonstatestandard.com/2024/11/14/wa-agency-failed-to-catch-doubled-up-benefit-payments/>

<sup>5</sup> <https://esd.wa.gov/about-us/news-release/2024/paid-family-medical-leave-premiums-increase-2025>

<sup>6</sup> <https://pl.mn.gov/resources/calculators/premium-rate-and-contributions>

#### 4) Workplace Adjustments and Operational Considerations

Paid family and medical leave programs may also affect how work is organized within firms. The availability of intermittent leave can increase scheduling complexity, particularly in smaller workplaces where staffing flexibility is limited. Job-protection provisions may further constrain employers' ability to adjust staffing, sometimes leading to greater reliance on temporary coverage. In practice, employee absences may also result in work being redistributed among remaining staff. In some cases, this may lead to increased workloads or scheduling challenges, especially during peak periods. While these effects are difficult to quantify and likely vary across firms and industries, they suggest that workplace adjustments are an important, though less well-measured, dimension of program implementation.

#### 5) Labor Market Responses

Although paid family leave is often intended to support women's labor-force participation, evidence from California suggests that its effects may be more mixed. Some studies find that, relative to states without similar policies, young women experienced increases in unemployment duration following implementation.<sup>7</sup> Longer-run research using tax data similarly shows that while paid leave increases take-up among mothers, it does not consistently improve longer-term career outcomes and, for some groups—particularly first-time mothers and lower-earning women—may be associated with weaker employment or earnings trajectories.<sup>8</sup> These findings suggest that labor-market responses to paid leave policies may vary across groups and over time, highlighting the importance of monitoring distributional effects as programs mature.

#### 6) Compliance Coordination and Multi-State Complexity

Minnesota's Paid Leave program may reduce benefit costs for some employers, particularly those that already offer private leave plans. However, available evidence suggests that these cost offsets do not necessarily reduce overall employer burden. Survey data indicate that nearly 40 percent of employers have had to modify existing paid leave programs to comply with state PFML requirements.<sup>9</sup>

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<sup>7</sup> <https://www.iza.org/publications/dp/8023/unanticipated-effects-of-californias-paid-family-leave-program>

<sup>8</sup> <https://www.cato.org/research-briefs-economic-policy/long-run-effects-californias-paid-family-leave-insurance-womens>

<sup>9</sup> <https://www.standard.com/eforms/21772.pdf>

For employers operating across multiple states, compliance challenges may be more significant due to differences in eligibility rules, contribution structures, and reporting requirements. In this context, while the program may be cost-saving for some firms, it may also increase administrative complexity for others, suggesting that its overall impact will vary across firm size, structure, and geographic location.

## Conclusion

Paid family and medical leave can provide meaningful support to workers during periods of illness and caregiving. However, the evidence reviewed in this brief suggests that the way these benefits are delivered has important implications. When implemented through a uniform, state-run system, many of the advantages associated with flexibility and choice may be reduced, particularly for employers and workers with diverse needs. Experiences from early-adopting states indicate that the challenges associated with these programs—especially those related to business burden, administrative complexity, and cost uncertainty—are not solely transitional. Rather, they reflect constraints that arise from standardizing benefits across firms with very different capacities and operating environments.

Minnesota's PFML program reflects a clear policy objective, but it also introduces a more centralized approach that may limit how leave policies are adapted in practice. As a result, expanding access through statewide mandates may involve trade-offs between broader coverage and reduced flexibility, as well as between policy simplicity and responsiveness to local conditions. As Minnesota moves forward, careful monitoring and adjustment will be important. More broadly, its experience suggests that efforts to expand paid leave should weigh not only the benefits of increased access, but also the potential value of more flexible, employer-driven approaches that allow workers and firms to make choices that best fit their circumstances.

## Appendix

- 1) <https://nationalpartnership.org/wp-content/uploads/small-businesses-support-paid-family-medical-leave-report-2024.pdf>
- 2) <https://www.duluthnewstribune.com/business/proposed-paid-leave-mandates-a-hot-topic-for-northland-businesses>
- 3) <https://paidleave.oregon.gov/bulletins/2024-03-26/march-2024-bulletin/>

## Appendix, Cont.

- 4) <https://washingtonstatestandard.com/2024/11/14/wa-agency-failed-to-catch-doubled-up-benefit-payments/>
- 5) <https://esd.wa.gov/about-us/news-release/2024/paid-family-medical-leave-premiums-increase-2025>
- 6) <https://pl.mn.gov/resources/calculators/premium-rate-and-contributions>
- 7) <https://www.iza.org/publications/dp/8023/unanticipated-effects-of-californias-paid-family-leave-program>
- 8) <https://www.cato.org/research-briefs-economic-policy/long-run-effects-californias-paid-family-leave-insurance-womens>
- 9) <https://www.standard.com/eforms/21772.pdf>

## Author



### **Tiange (Sheryl) Du, PhD | Research Specialist**

Sheryl Du is a Research Specialist at the Challey Institute for Global Innovation and Growth at North Dakota State University. She earned her Ph.D. in Economics from the University of Connecticut, where her dissertation focused on the development of Chinese firms and institutions, including a case study of Huawei. She also holds a master's degree in Applied Economics from Johns Hopkins University and a bachelor's degree in Economics and Psychology from Brandeis University.