

## Minnesota Paid Leave Small Employer Calculations and 50-50 Splits

We have been alerted by a few small employers that have passed resolutions for a 50% employer and 50% employee split that the CTAS calculation is incorrect, because they are expecting to see the premium split evenly between the employer and the employee. However, CTAS was set up to follow the guidelines in statute. This document will explain the Minnesota Paid Leave Law percentages, background, basis for calculations in CTAS and how to adjust percentages in CTAS to get a 50% split between employer and employee for small employers.

### Minnesota Law

Minnesota Statute Section 268B.14 (otherwise known as the Minnesota Paid Leave Law) (PFML) defines the premium contributions for employers. Specifically, subdivision 5a. and 5b. addresses premiums for small employers. In subdivision 5a., the statute states that the premium rate for small employers is 75% of the annual premium rate. Subdivision 5b states that employers must pay a minimum of 25% of the annual premium rate. The annual premium rate is .88% for January 1, 2026, as set by the Commissioner of Employment and Economic Development (Commissioner). Please note that the statute does not use or reference a premium rate of .66% or a split between employee or employer of .44%/.22%. The statute only speaks of the annual premium rate and everything is a calculation based on that rate.

### Calculations

Due to the statutory language of PFML, CTAS was programmed to make the PFML calculations based on the 2026 annual total premium rate of .88%, whether the employer is a small employer or a normal employer.

Going through the calculations below for a normal employer and a small employer, using the minimum employer contribution percentages as set out in Minnesota law, the employee is contributing the same amount in either scenario, see below.

#### Normal Employer Example

Gross Pay = \$1,600 and employer is contributing required minimum percentage of 50%

Total Premium =  $\$1,600 * .0088 = \$14.08$

Employer (50%) =  $\$14.08 * .5 = \$7.04$

Employee (remaining 50%) =  $\$14.08 * .5 = \mathbf{\$7.04}$

#### Small Employer Example

Gross Pay = \$1,600 and employer is contributing required minimum percentage of 25%

Total Premium =  $\$1,600 * .0088 = \$14.08 * .75 = \$10.56$

Employer (25%) =  $\$14.08 * .25 = \$3.52$

Note: The employer portion of the premium is 25% of the .88% premium and NOT 25% of the reduced premium of \$10.56.

Employee (remaining) =  $\$10.56 - \$3.52 = \mathbf{\$7.04}$  (This ends up being 50% of the .88% premium).

Note: This causes the percentages between employer and employee to not add up to 100%, but

only to 75%. This is because the annual premium was reduced to 75%, per Minnesota Paid Leave Law.

### **Background**

As noted in the above example using the required minimum contributions, the employee pays the exact same amount, regardless of the employer's size. The small employer benefit is to reduce the employer's portion of the premium and not necessarily the employee's portion of the premium.

For a small employer, this means that the employee's contribution was 50% (since everything is calculated off the .88% premium). 50% is the maximum that an employee can contribute under a small employer (since, in the example, the employer contribution was set at the minimum.)

As previously noted, the required minimum for a normal employer is 50%; therefore, the maximum for an employee is 50%. Therefore, whether an entity is a normal employer or a small employer, the employee can contribute no more than 50%. This also means that the required minimum for the employer in either scenario is 50% (if the percentages are going to add up to 100%).

### **Employer and Employee 50%/50% Split**

When entering a 50% employer and 50% employee split into the employee tab in CTAS, for a small employer, instead of CTAS splitting the premium equally between the employer and the employee as it would in the case of a normal employer, CTAS calculates 50% employee (since 50% is the required maximum for the employee), 25% employer (required minimum for a small employer), and 25% reduction in the premium. This causes the full small employer benefit to be given solely to the employer and none of it to the employee, as in the example.

If CTAS were to split the small employer premium evenly between the employer and the employee, the 25% reduction in premium for being a small employer is no longer solely benefiting the employer. It is effectively being split between the employee and the employer (12.5% to each, which ends up being closer to a 62/38 percentage split between the employer and the employee). If the governing board of the entity wishes to do this, it is allowed in statute as the employer can contribute more than the required amount. However, it is important to note in this scenario that the employer is actually contributing more than the required amount so the additional contribution will be taxable to the employee and the employer.

We certainly understand how it may be confusing when entering a 50-50 split that the premium is not evenly divided in half, as you might expect. However, the CTAS calculation is set up in accordance with statute. If you would like to see an even split in the premium for a small employer, you will need to enter a percentage somewhere near 62% employer and 38% employee. (This allocates approximately 12.5% more to the employer share and removes approximately 12.5% from the employee share).

## **Methodology**

During our discussion on how to set up PFML in CTAS, we thought it might be confusing if a normal employer would enter a percentage split that added up to 100% but a small employer would enter a percentage split that only added up to 75%. Therefore, we set up the percentages for both normal and small employer to be at 100%, with the system adjusting for the 75% small employer behind the scenes.

Also, we were informed that employers could flip between normal and small employer, so we didn't want to have two places for a user to enter percentage splits, one for when normal employer was selected and one for when small employer was selected. We believe that only having one place to enter the split and having the percentages add up to 100% is easier for users who may have to switch between the different employer types.

As time goes by and we continue to work with CTAS users, we may consider updating or amending CTAS in the PFML area. Also, we will be working to create the quarterly PFML reports.

Questions should be directed to [ctas@osa.state.mn.us](mailto:ctas@osa.state.mn.us) or (651) 296-6262.