

Washington
Paid Family & Medical Leave



Employment Security Department
WASHINGTON STATE

Advisory Committee Meeting

Wednesday, September 27, 2023

Agenda

Introductions & approve July minutes

UW job protection study follow-up discussion

Program & fiscal updates

Actuarial update

Current program priorities

Budget & staffing updates

Advisory meetings during session

Open comment & adjourn

Meeting structure

Only Advisory Committee members and presenters will be unmuted or speaking during the meeting.

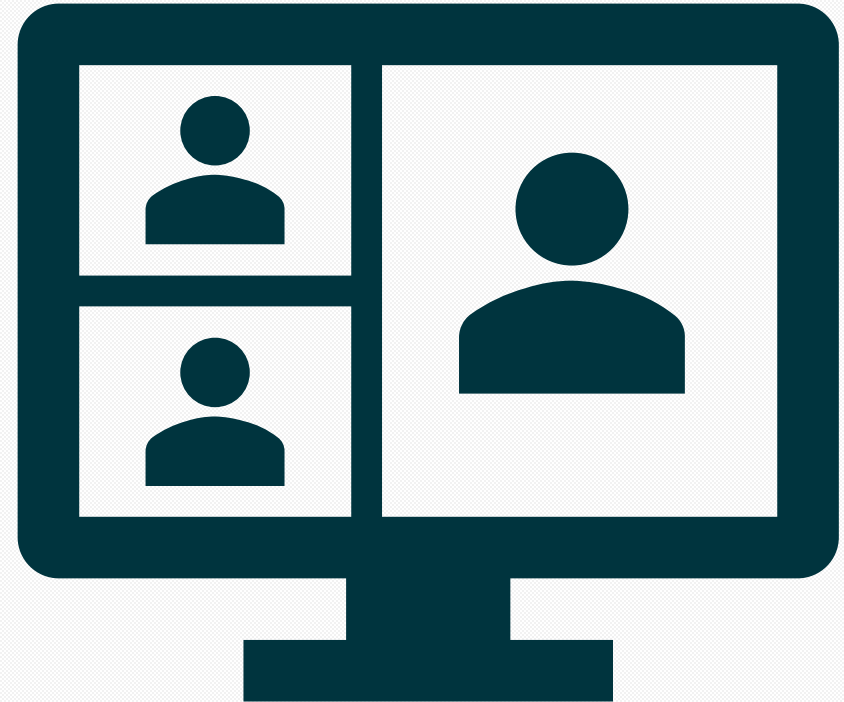
Public to hold all feedback until open comment at the end.

Comments and questions in chat or the meeting will be reviewed during Open Comment at the end of the meeting.

Introductions

Advisory Committee Members

- Advisory committee members will introduce themselves in-person or online.



Approve July minutes



Job protection study follow-up discussion

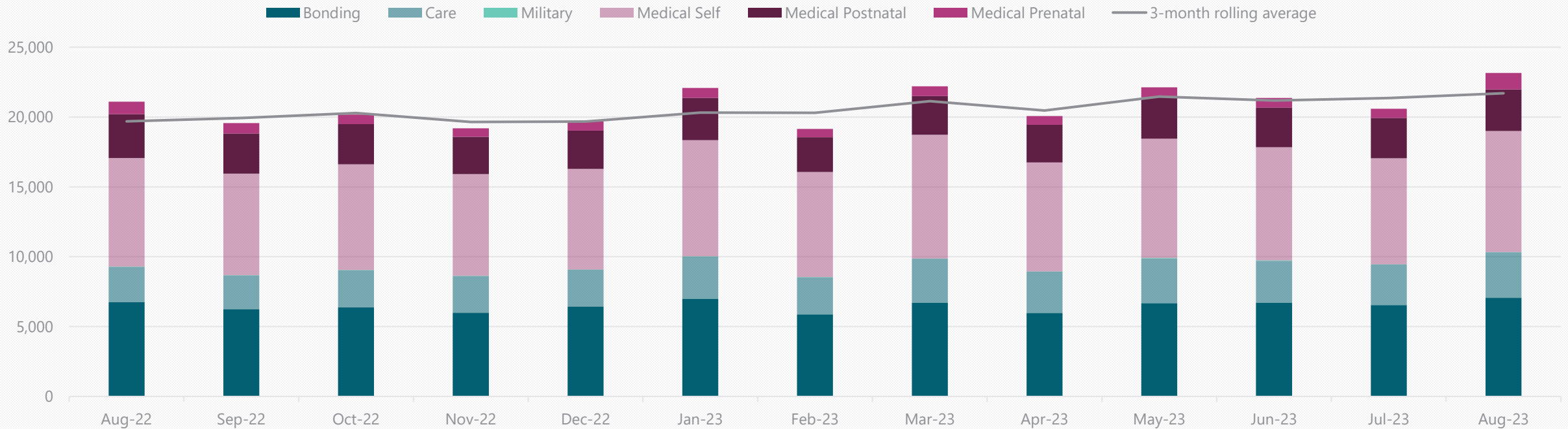
Dr. Heather Hill, Evans School of Public Policy
University of Washington

Program and fiscal update

Steve Zawoysky, Treasury Manager

Brian Kennedy, Forecast & Economic Analyst

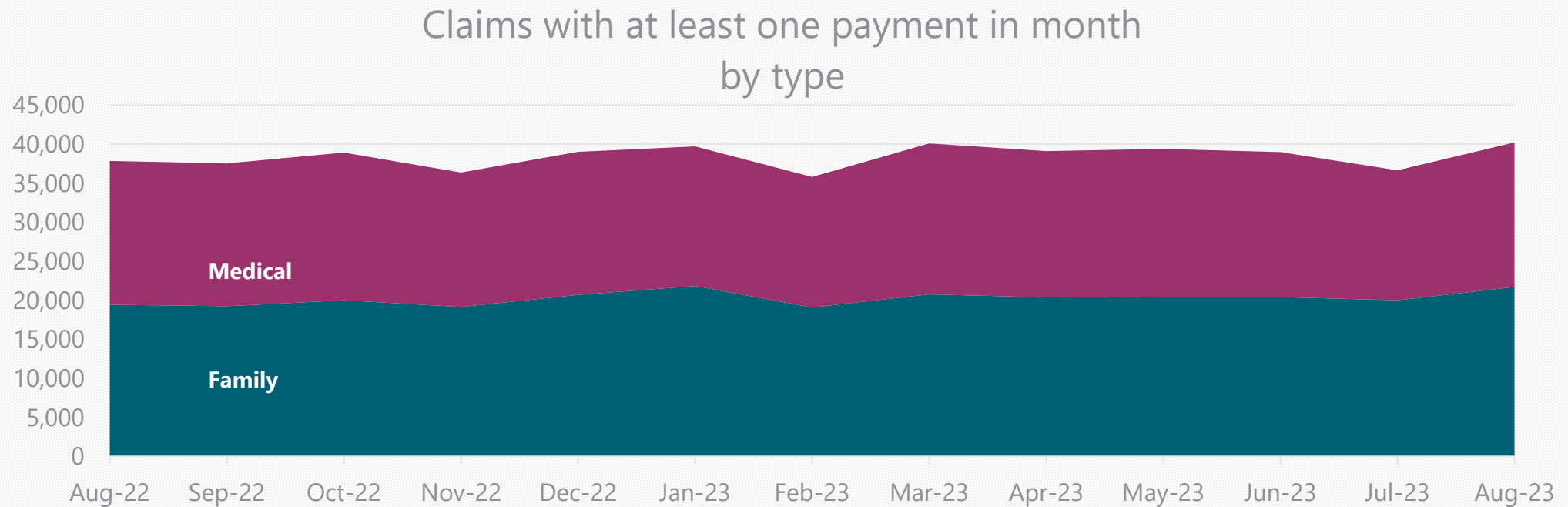
Claim applications submitted by type



- August 2023, we received 23,157 applications – Highest monthly applications
 - 12% more than last month
 - 10% more than August of last year
- Continue to see shift towards medical leave types ~ 46% family, 54% medical
- Three-month rolling average ~ 21K claim applications

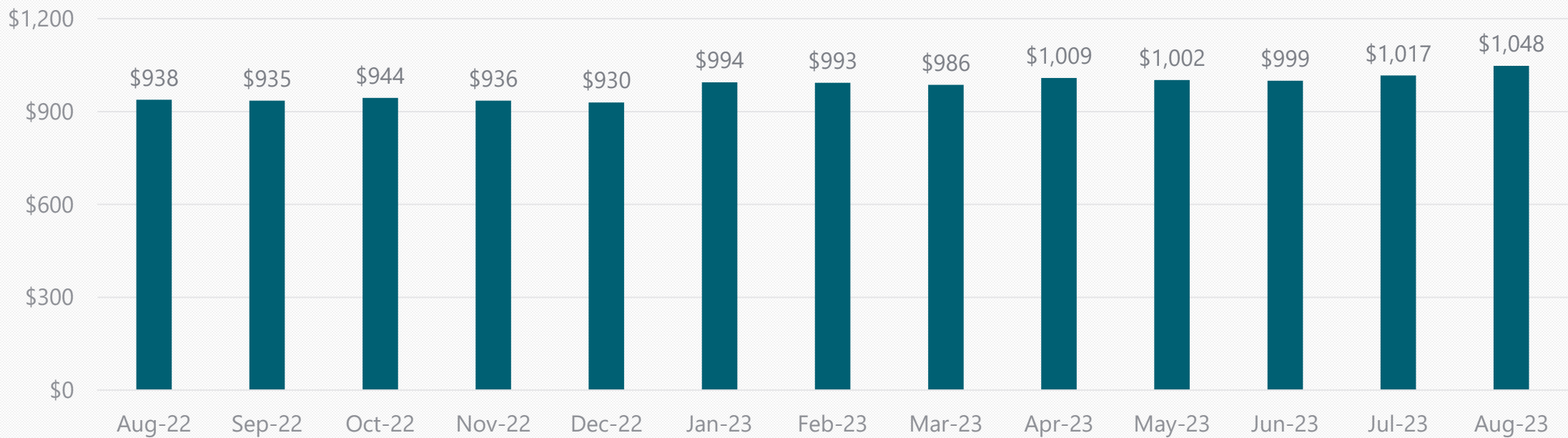
Approval rate and monthly claims with payment(s)

- Percentage of claims approved continues to be relatively stable in past year, slightly increasing
- Unique leave claims in the last 12 months – 121,833 family and 131,896 medical
- August 2023 total unique paid leave claims: 40,207
 - 6% more than August of last year



Weekly benefit levels

- Jan-Aug 2023 average: \$1,001
 - 7% higher than Jan-Aug of 2022, \$934



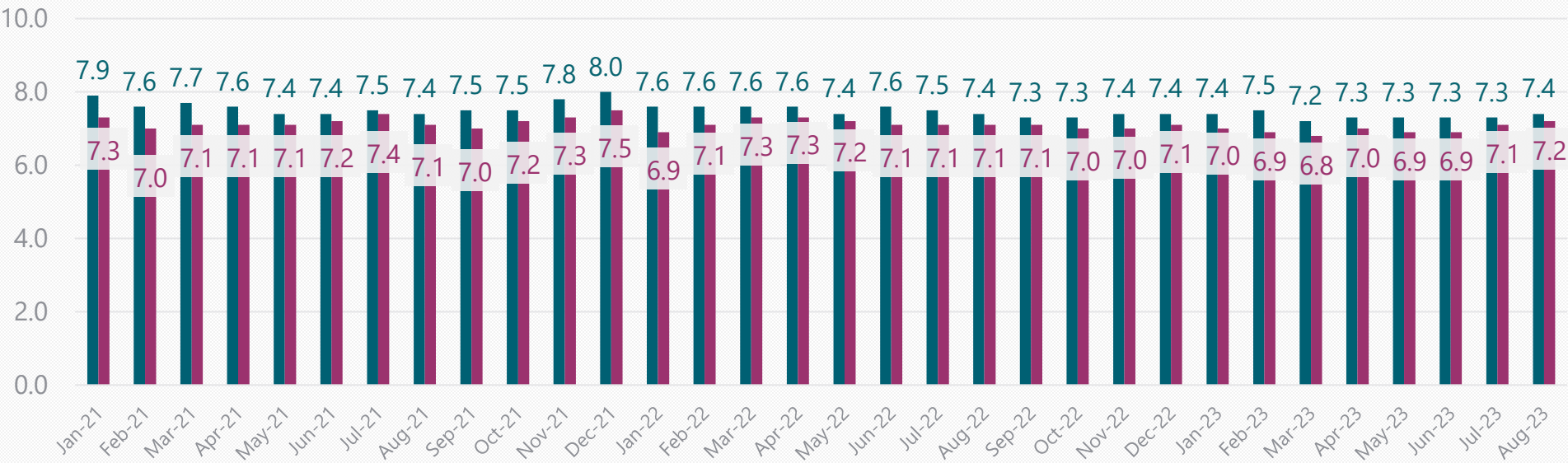
Technical note: Average weekly benefit amount for approved claims grouped by claim year start month, most recent months typically drop slightly as data matures.

Lengths of leave (average)

Claim Level

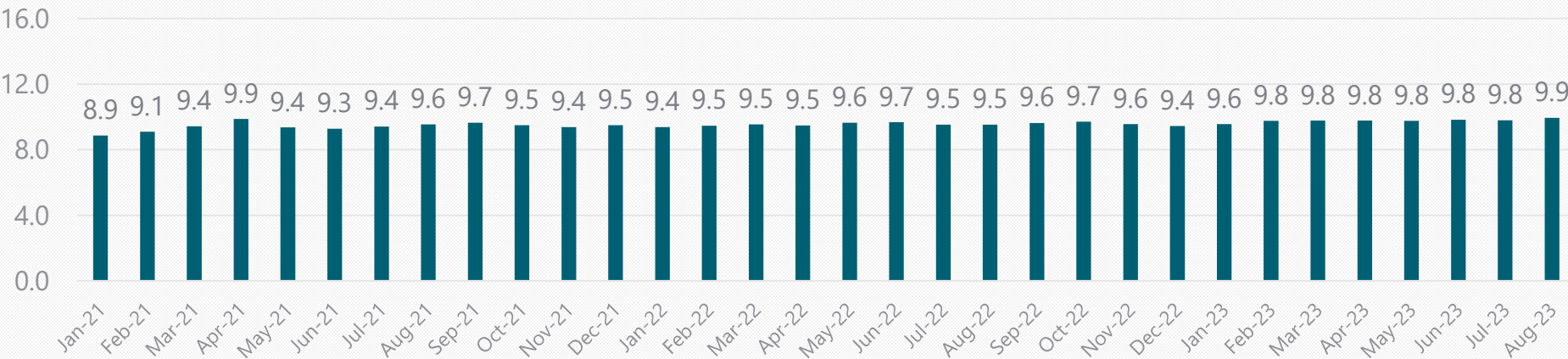
Comparing to 2022

- Family: 7.6 weeks
- Medical: 7.3 weeks



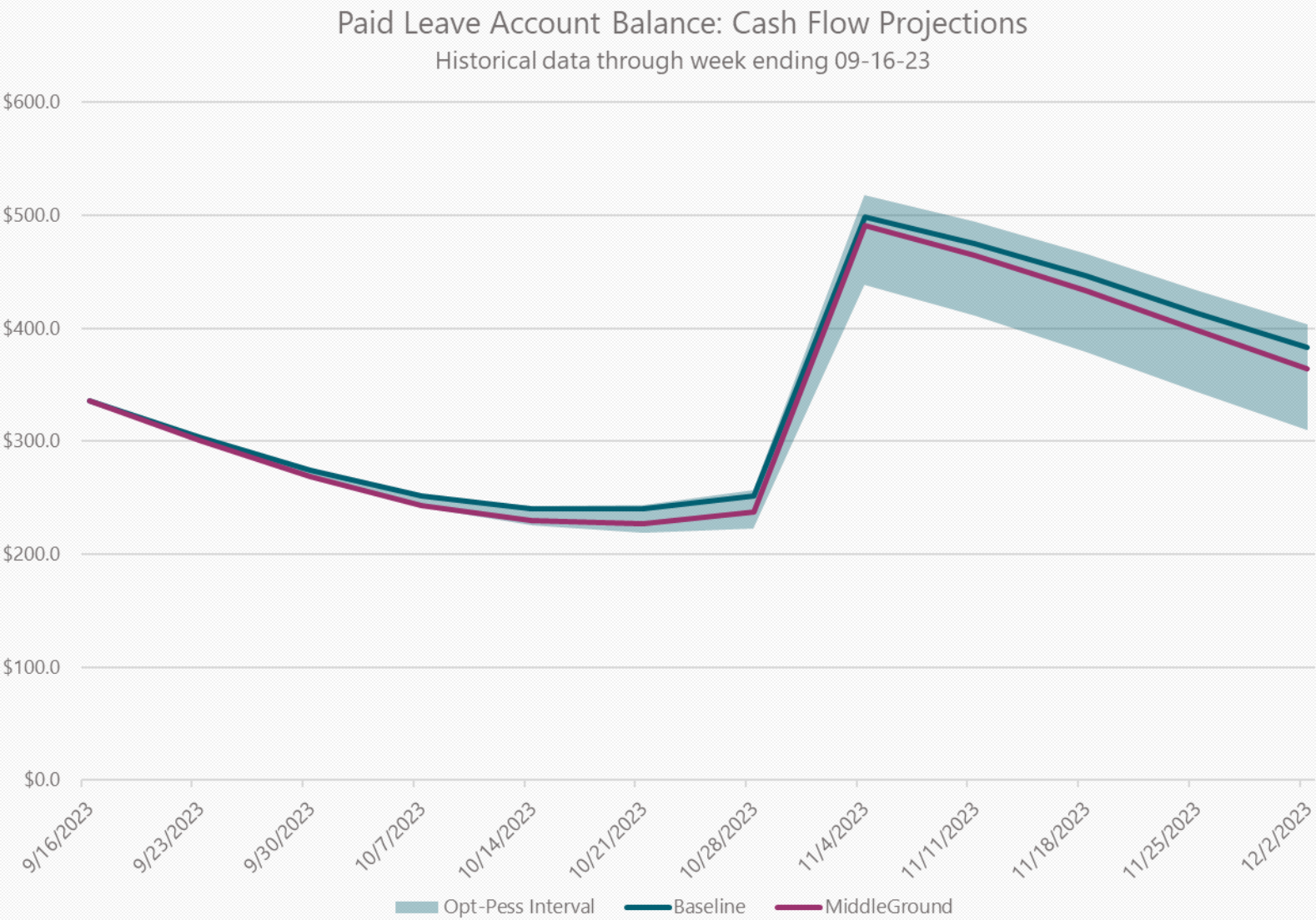
Claim Year Level

- 2022: 9.6 weeks

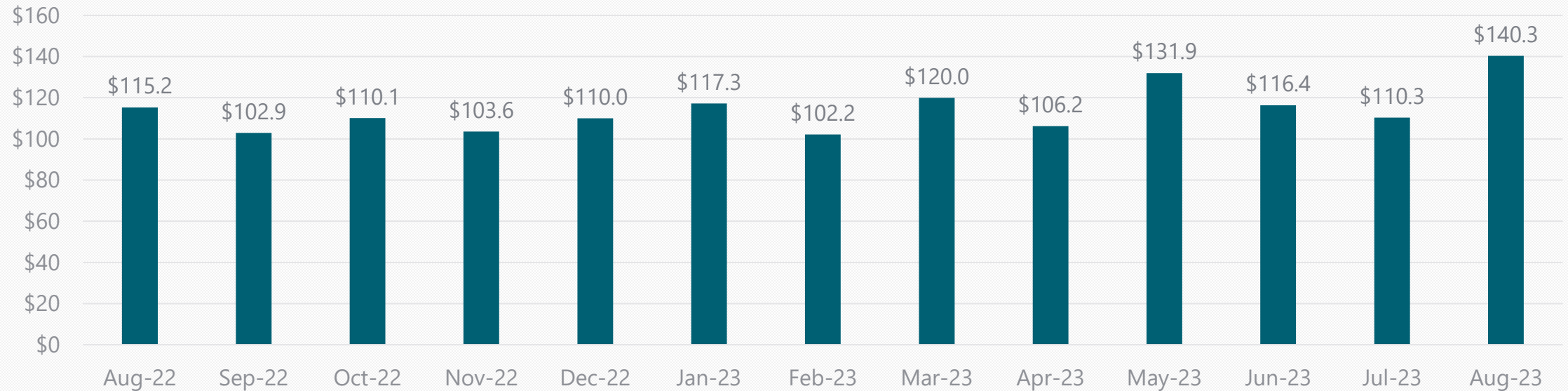


Fiscal projections

- Account Balance 9/30 ~ range of \$275-\$290 million
- \$200 million in the account
 - Lowered risk of short-term deficit in future cycles but still a concern for a couple years
 - Will take a few years to establish 3-month reserve



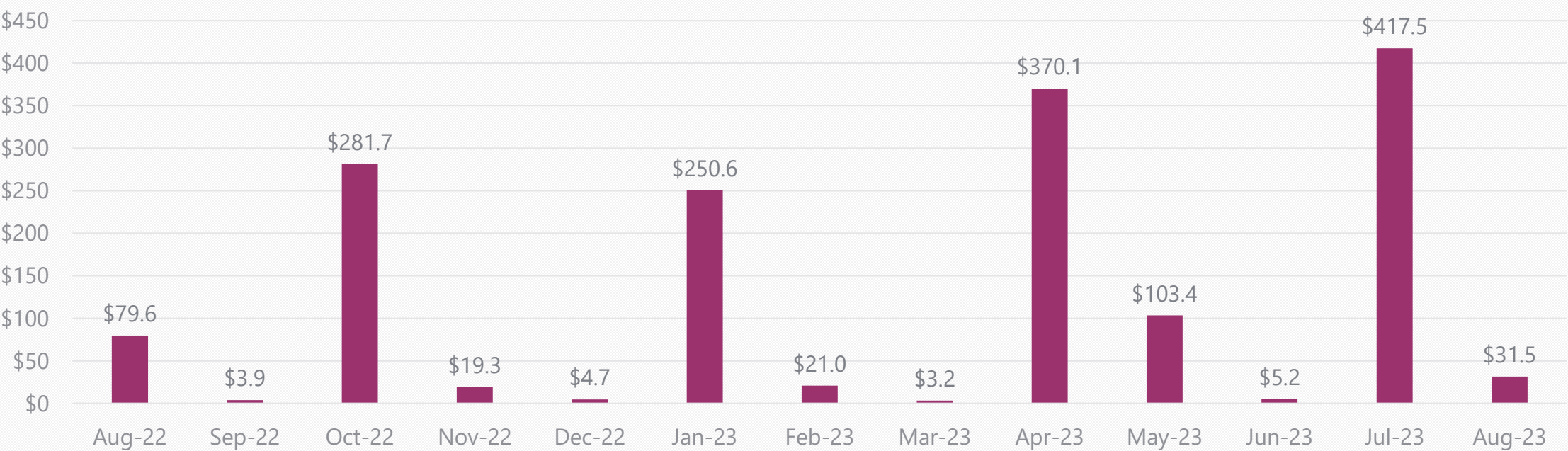
Monthly benefits paid (millions)



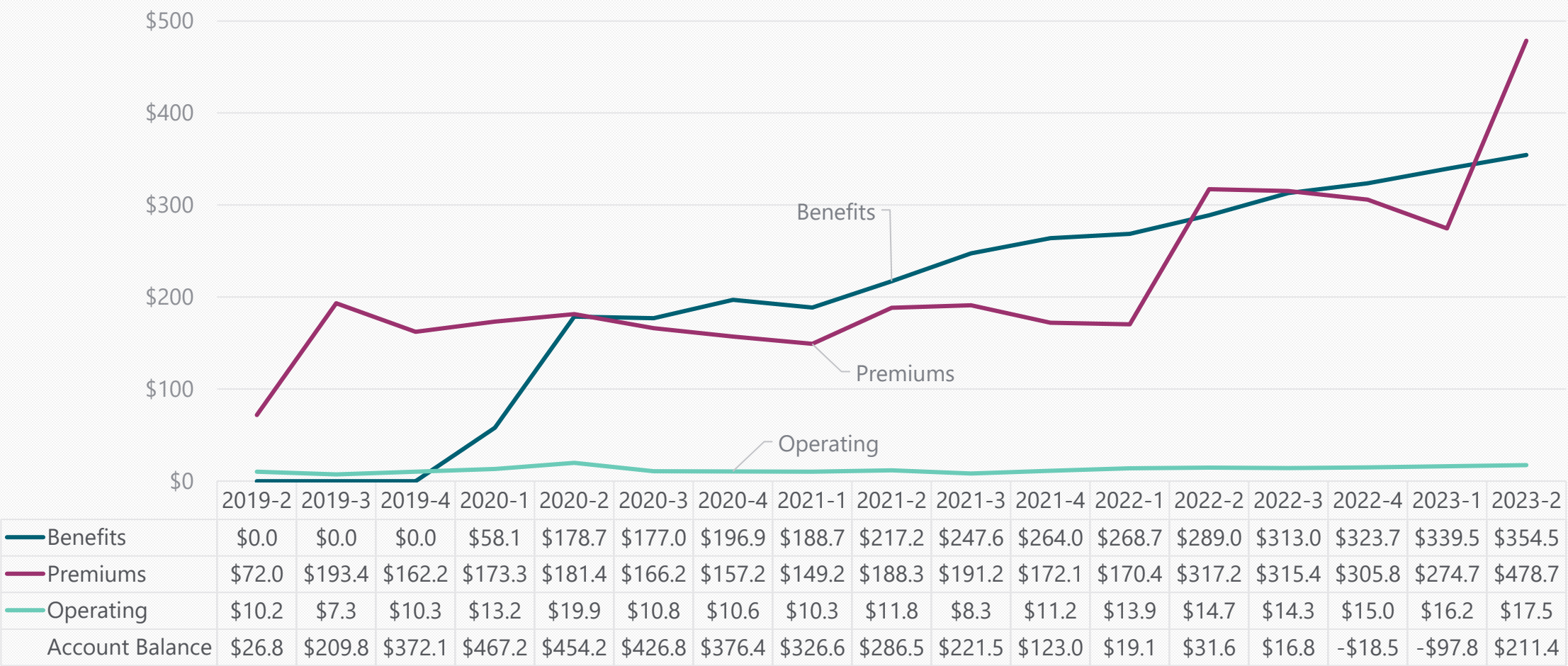
- August 2023 had \$140.3 million in benefits paid
 - 27% higher than July
 - 22% higher than last August
- \$944.6 million in benefits paid in 2023 thus far
 - \$176.8 million more, or 23% higher, than Jan-Aug 2023

Monthly premiums remitted (millions)

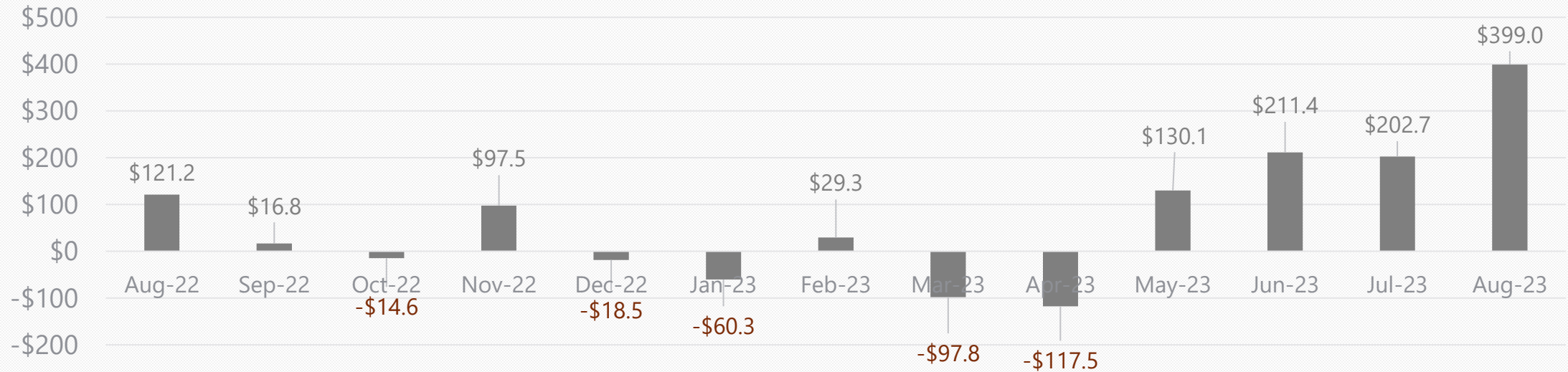
- Cyclical pattern of highest monthly premium transactions occurring at end of quarterly reporting months
- Premiums assessed for each quarter are remitted in the following quarter
 - Q2 Premiums remitted in July and August were \$449 million compared to \$311.5 million in same period of 2022
 - Q2 premiums thus far are 5.2% lower than Q1 primarily due to increasing number of employees hitting SS wage cap
 - August premiums of \$31.5 million are \$48.1 million less than last August (July 2023 reporting period occurred mid week)



Premiums, benefits, operating expenses, and account balance by quarter (millions)



Monthly ending account balance (millions)



- August 2022 ending balance was \$121.2 million
- Ending August 2023 account balance was \$399.0 million
- August year over year increase in account balance due to:
 - \$200 million FY23 supplemental budget transfer
 - \$77.8 million excess of total revenues over expenditures (includes benefits and administrative expenses)

Time from application submission to first payment

| Month | Average weeks | Median weeks |
|-------------|---------------|--------------|
| August 2022 | 4.0 | 2.6 |
| August 2023 | 5.3 | 4.4 |

| Month | Average weeks | Median weeks |
|-------------|---------------|--------------|
| Jan 2023 | 4.5 | 3.3 |
| Feb 2023 | 4.3 | 3.3 |
| Mar 2023 | 3.9 | 2.9 |
| Apr 2023 | 4.2 | 3.0 |
| May 2023 | 4.2 | 3.1 |
| June 2023 | 4.7 | 3.6 |
| July 2023 | 5.3 | 4.3 |
| August 2023 | 5.3 | 4.4 |

Phones

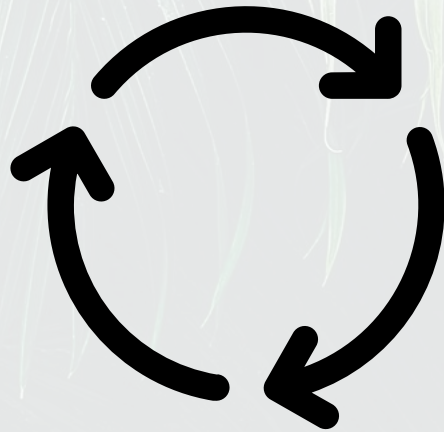
| Month | Percentage of calls into queue* | Percentage of calls answered from Paid Leave queue | Queue time for Paid Leave |
|---------------|---------------------------------|--|---------------------------|
| January 2023 | 79% | 68% | 08:27 |
| February 2023 | 81% | 65% | 09:42 |
| March 2023 | 85% | 66% | 04:12 |
| April 2023 | 84% | 62% | 05:59 |
| May 2023 | 82% | 60% | 12:27 |
| June 2023 | 75% | 66% | 22:35 |
| July 2023 | 62% | 57% | 27:23 |
| August 2023 | 66% | 50% | 25:24 |

Since August 2022:

- 5% increase in calls into queue.
- 30% decrease in calls answered

Paid Leave System Completion

\$8.3M, 48 FTE



Paid Leave requests 48 FTE and \$8.3M expenditure authority increase to support the completion of Washington's Paid Leave program implementation. The balance of legal requirements of the program, including collections, recovery, compliance and service improvements, must be completed in order to uphold the full intention of the Paid Leave program.

This funding will resource technology staff, transformation staff and support staff.

Actuarial updates

Eve Sheng, Managing Actuary

“The longer you can look back, the farther you can look forward”

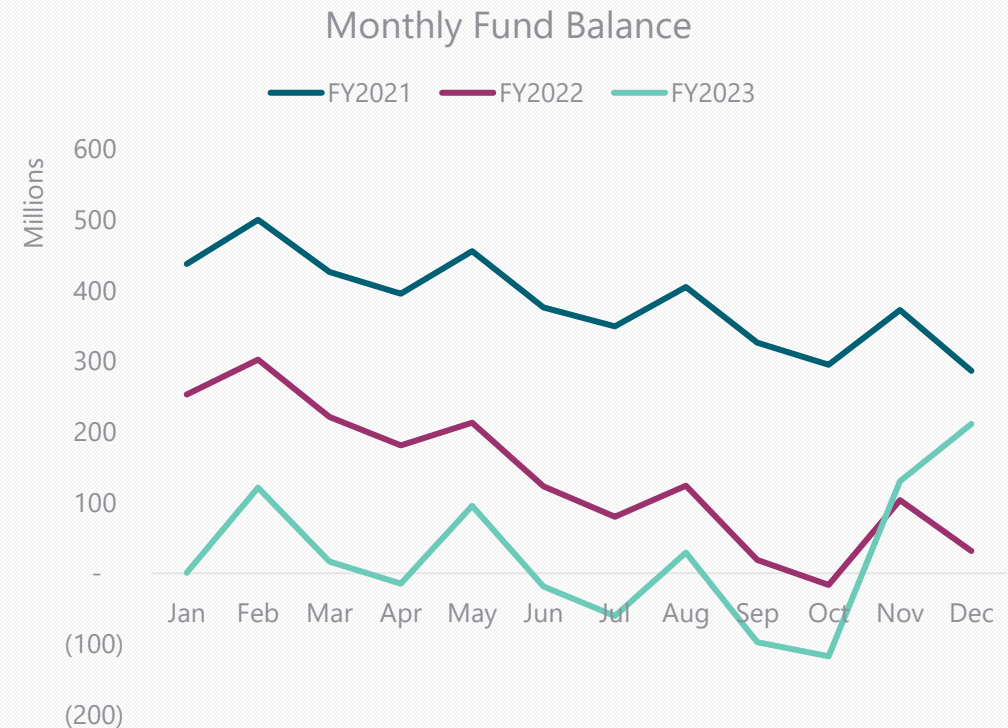
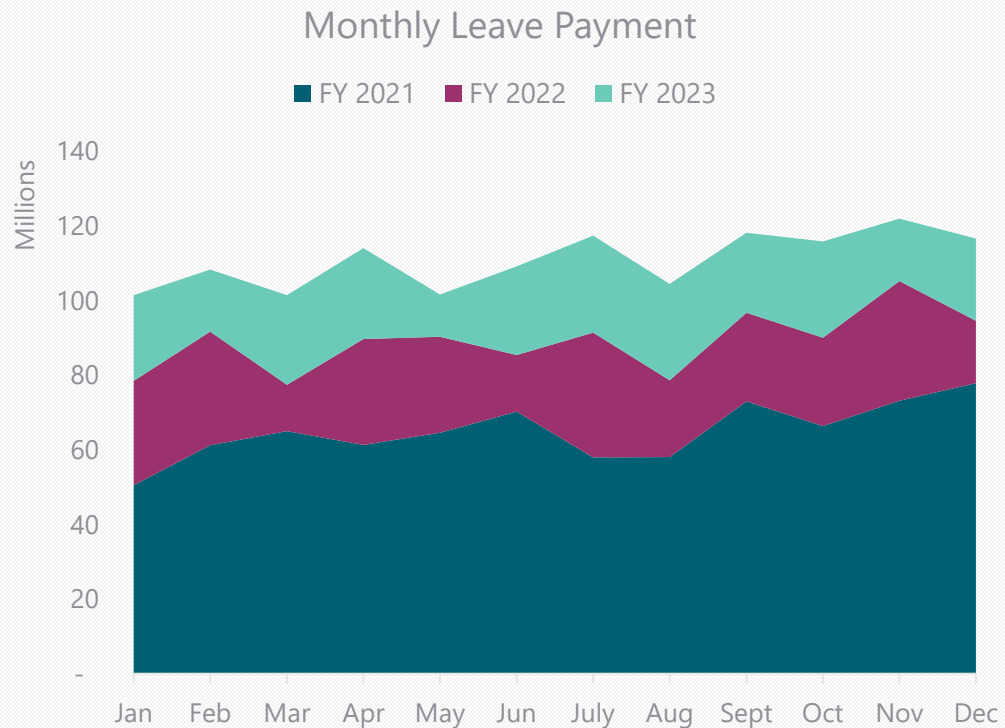
– Winston Churchill

PFML has about 3.5 years’ experience as of June 2023, a period with great uncertainty.



What was our experience so far?

FY2023 monthly leave payment doubled FY2021, and initial FY2021 fund balance reduced to \$1 mil at beginning of FY2023



Where is the PFML program headed?

Expect the growth of leave benefits to decelerate but outpace wage growth

- Wage and covered employees' growth continue but slower
- Social dynamics continue evolving, especially Care
- Pandemic phenomena dies down, e.g., Bonding
- Impact from pre-2023 legislative changes decelerates or stabilizes
- Program awareness improvement continues

How the future can differ from the “expected”

Suggest taking actions to improve the program financial condition sooner, such as adequate premium rate with solvency provision

- Social dynamics
- Economic condition
- Future legislative and policy changes
- Operational changes

Agenda

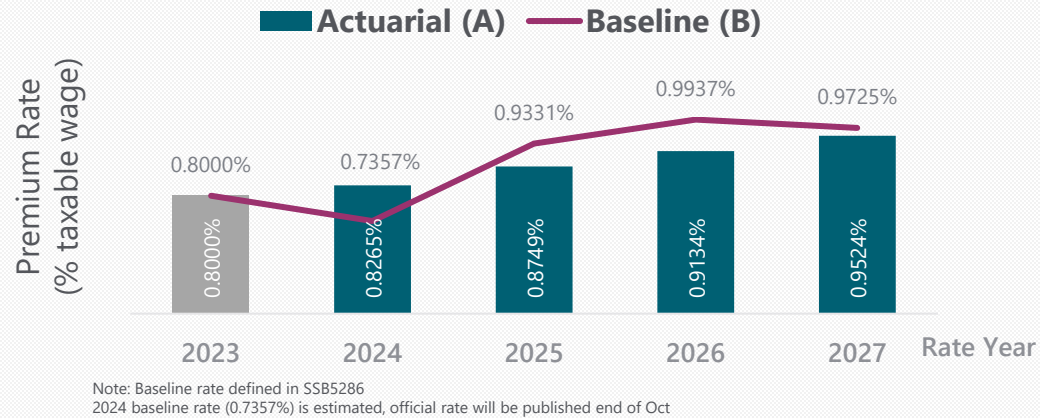
- Summary of results
- Historical financial condition
- Actuarial valuation, pricing and forecasting
- Q&A
- Appendix

Agenda

- **Summary of results**
- Historical financial condition
- Actuarial valuation, pricing and forecasting
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Summary of Results – Rates & Fund Balance

Expect 2024 baseline rate inadequate, and deteriorating fund health till FY2025



| Fiscal Year (\$millions) | 2024 | 2025 | 2026 | 2027 |
|------------------------------|---------|---------|---------|---------|
| (1) Premium collection (B) | \$1,674 | \$1,736 | \$2,166 | \$2,340 |
| (1) Premium collection (A) | \$1,727 | \$1,845 | \$2,020 | \$2,189 |
| (2) Leave benefit payment | \$1,594 | \$1,745 | \$1,901 | \$2,059 |
| (3) Net administrative costs | \$75 | \$86 | \$94 | \$102 |
| (4) Fund balance (B) | \$216 | \$122 | \$294 | \$475 |
| (4) Fund balance (A) | \$270 | \$284 | \$310 | \$340 |

Note: Fund balance resonates cash position and focuses on prem, leave payment and administrative cost
Numbers may not add up due to rounding
(4) = prior year ending fund balance + (1) – (2) – (3); fund balance as of June 2023 = \$212 million

Projected rates

- Baseline rate down by 8% in 2024, up by 27% in 2025
- Actuarial rate up by 3~6% per year

Projected fund balance

- Fund balance estimates at \$272 mil as of Dec 2023
- Fund balance (B) down to \$122 mil by FY2025, then up to \$475 mil by FY2027
- Fund balance (A) up gradually to \$340 mil by FY2027

Recommendation

- Align premium rate with expected future expenditures
- Improve program financial health with gradual approach
- Mitigate risks as early as possible

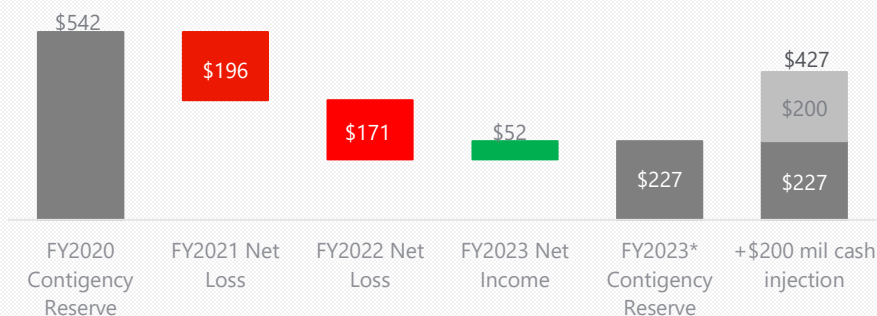
Agenda

- Summary of results
- **Historical financial condition**
- Actuarial valuation, pricing and forecasting
- Q&A
- Appendix

Historical Financial Conditions

Inadequate rates before 2023 weakened the program’s financial health, and 2023 rate action and cash injection rebounded it

Financial Contingency Reserve Movement

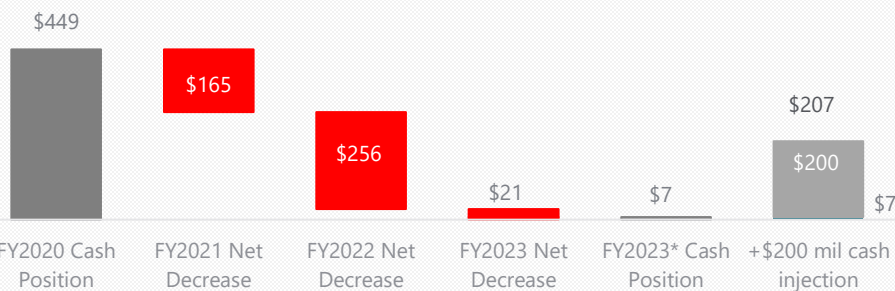


Program Financial Contingency Reserve

- Inadequate rates resulted net loss before FY2023
- 2023 rate of 0.8% generated slightly positive income for FY2023
- Three years’ combined income reduced program contingency reserve by \$315 mil

Financial contingency reserve is referred as equity or net book value. Current year contingency reserve = prior year contingency reserve + current year net income (loss) or Current year Assets – Current year liabilities

Financial Cash Position Movement



Note: FY2023* before \$200 mil cash injection
Numbers might not add up due to rounding

Program Financial Cash Position

- Inadequate rates depleted the program cash position over time
- Program cash position boosted to \$207 mil with \$200 mil injection

Agenda

- Summary of results
- Historical financial condition
- **Actuarial valuation, pricing and forecasting**
- Q&A
- Appendix

Actuarial Valuation, Pricing and Forecasting

Models and objectives

- Valuation model determines unpaid liabilities → financial health as of today
- Pricing model projects rates forward → adequate rate for foreseeable future
- Forecasting model estimates possible financial experience → financial implication over time

Modeling main assumptions

- Covered employee growth
- Average gross wage growth
- Approved leave utilization rates trend
- Average leave benefit payment trend
- Leave benefit and premium collection pattern
- Others

Note: Some actuarial assumptions are based on the financial condition as of FY2023. Any material changes of financial condition will arrive at different assumptions

Valuation Model Output

Project historical experience to ultimate and estimate short & long-term trends, and expect positive trend for most measures

| Family Leave Start Quarter | Utilization Rate | Leave Approval% | Average Weekly Payment | Duration (weeks) |
|----------------------------|------------------|-----------------|------------------------|------------------|
| 20223 (E) | 7.52 | 89.3% | \$827 | 8.1 |
| 20224 (E) | 7.63 | 90.2% | \$825 | 8.1 |
| 20231 (E) | 8.11 | 89.2% | \$859 | 8.1 |
| 20232 (E) | 8.12 | 90.5% | \$878 | 8.0 |

| Medical Leave Start Quarter | Utilization Rate | Leave Approval% | Average Weekly Payment | Duration (weeks) |
|-----------------------------|------------------|-----------------|------------------------|------------------|
| 20223 (E) | 9.54 | 82.5% | \$826 | 7.4 |
| 20224 (E) | 9.11 | 82.5% | \$833 | 7.4 |
| 20231 (E) | 10.14 | 82.4% | \$866 | 7.4 |
| 20232 (E) | 9.99 | 84.3% | \$887 | 7.4 |

Note: 20232 refers to second quarter of 2023

(E) indicates the numbers are estimated based on actuarial reserving analysis

Utilization rate is the number of leave count per 1000 covered employees

Leave approval% is the non-denied claim counts as percentage ultimate reported claim counts

Duration is the average number of weeks per claim

Refer to report for complete output

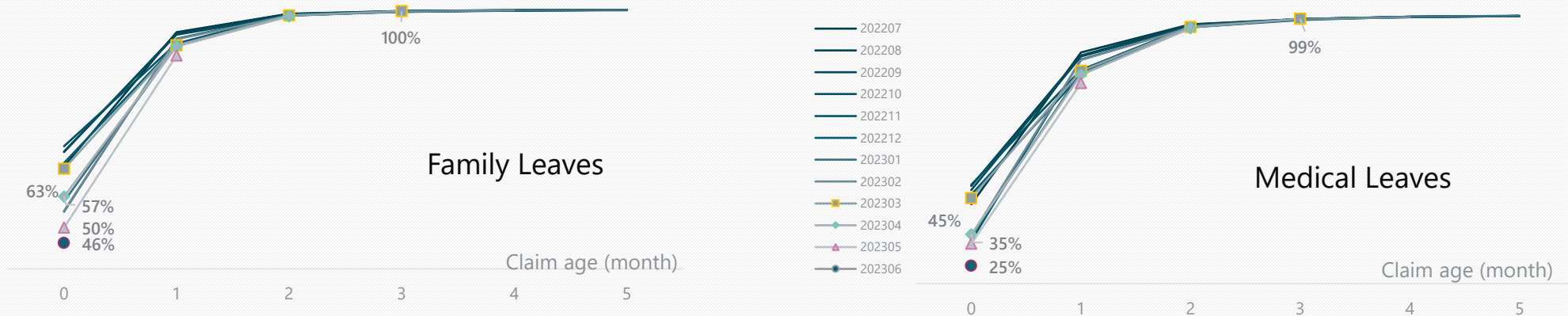
Highlight

- Utilization rate growth decelerated
- Approval% stabilized for Family and could continue evolving for Medical
- Average weekly payment grew 6%+ within a year
- Leave duration shortened (Family) slightly or stabilized (Medical)

Valuation Model Output

Identify the movements/changes impact financial outcomes, and observe increasing process time between March and June 2023

Leave Process Time (Adjudicated % Reported Leave Count) by Leave Start Month & Claim Age



Note: 202306 refers to the leaves with start date in June 2023
claim age = evaluation month – leave start month, claim age of 0 indicates the evaluation month is the same as the leave start month

Highlight

- Leave process time increased for both Family and Medical claims.
- Medical leaves take longer to be adjudicated than Family leaves.
- Majority (Family 89.%, Medical 80%) leaves being adjudicated by claim age of 1

Pricing Model Output

Aligning premium rate with projected expenditure will improve fund health over time, otherwise result in deterioration

Baseline rate (B)

Actuarial rate (A)

| Calendar-Leave Year | 2024 | 2025 | 2026 | 2027 |
|-----------------------------|-----------|-----------|-----------|-----------|
| (1) Premium rate | 0.7357% | 0.9331% | 0.9937% | 0.9725% |
| (2) Covered employees | 3.551 | 3.569 | 3.586 | 3.604 |
| (3) Taxable wages | \$236,291 | \$245,501 | \$255,060 | \$264,982 |
| (4) Premium exemption | (\$139) | (\$185) | (\$205) | (\$209) |
| (5) Assessed premium | \$1,599 | \$2,106 | \$2,239 | \$2,368 |
| (6) Ultimate leave benefit | \$1,682 | \$1,849 | \$2,005 | \$2,171 |
| (7) Net Administration cost | \$76 | \$84 | \$90 | \$98 |
| (8) Pricing income (loss) | (\$159) | \$172 | \$234 | \$99 |
| (9) Leave benefit ratio | 105.2% | 87.8% | 86.1% | 91.7% |
| (10) Net expense ratio | 4.8% | 4.0% | 3.9% | 4.1% |
| (11) Combined ratio | 110.0% | 91.8% | 90.0% | 95.8% |

Note: numbers in millions, and (7) net administration cost is administration cost offset by interest income

(5) = (1) x (3) + (4)

(9) = (5) - (6) - (7) + (8) pricing loss indicates inadequate premium comparing to expected total expenditures

(10) = (6) / (5)

(11) = [(7) - (8)] / (5)

(12) = (10) + (11) combined ratio above 100% suggests inadequate premium comparing to expected total expenditures

| | 2024 | 2025 | 2026 | 2027 |
|------------------------|-----------|-----------|-----------|-----------|
| Actuarial premium rate | 0.8265% | 0.8749% | 0.9134% | 0.9524% |
| | 3.551 | 3.569 | 3.586 | 3.604 |
| | \$236,291 | \$245,501 | \$255,060 | \$264,982 |
| | (\$157) | (\$173) | (\$189) | (\$205) |
| | \$1,796 | \$1,974 | \$2,141 | \$2,319 |
| | \$1,682 | \$1,849 | \$2,005 | \$2,171 |
| | \$76 | \$84 | \$91 | \$99 |
| | \$38 | \$41 | \$45 | \$49 |
| | 93.6% | 93.6% | 93.6% | 93.6% |
| | 4.3% | 4.3% | 4.3% | 4.3% |
| | 97.9%* | 97.9% | 97.9% | 97.9% |

*Actuarial rates target for a combined ratio of 97.9% based on the financial condition as of FY2023. Any material changes of financial condition will arrive at different target combined ratio, leading to different actuarial rates.

Highlight

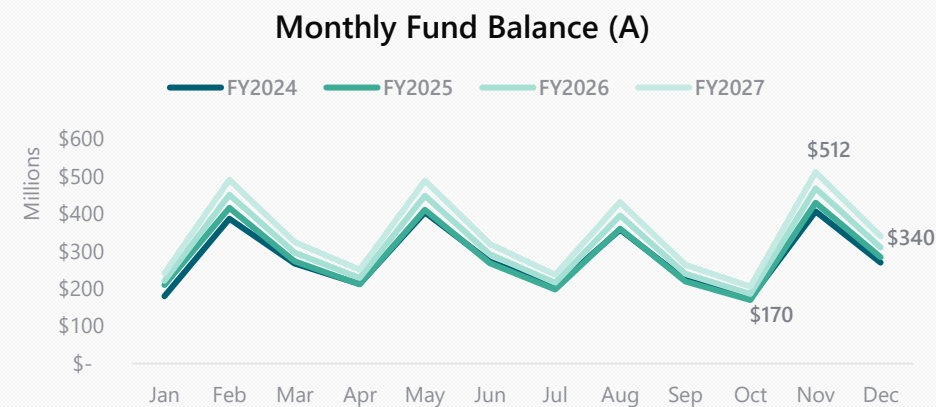
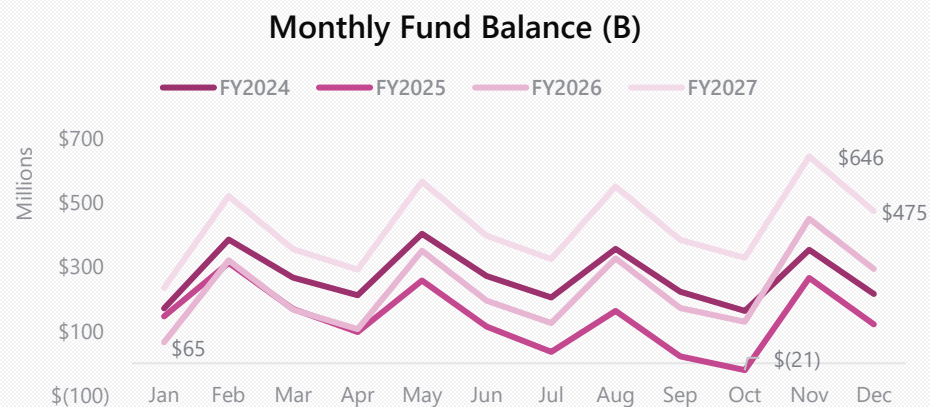
- Anticipate projected baseline rates more volatile than actuarial rates that increase gradually over years

Forecast Model Output

Estimate fund balance based on valuation and pricing model output, and anticipate downward trend for baseline rate by FY2025

Baseline rate (B)

Actuarial rate (A)



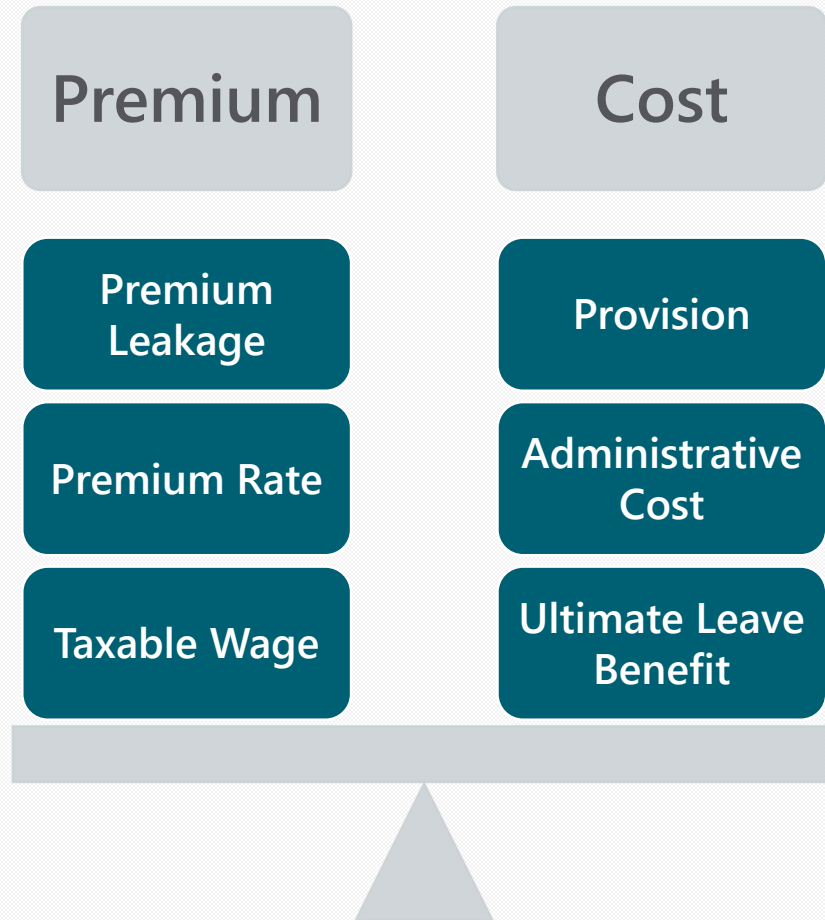
Highlight

- Fund balance not uniform through the year due to premium collection pattern
- Project fund balance (B) hovering \$200 mil in FY2024, incurring deficit during FY2025, then improving in FY2026 & 2027
- Project fund balance (A) increasing gradually over next four years

Q&A

Appendix - Insurance Pricing Foundation

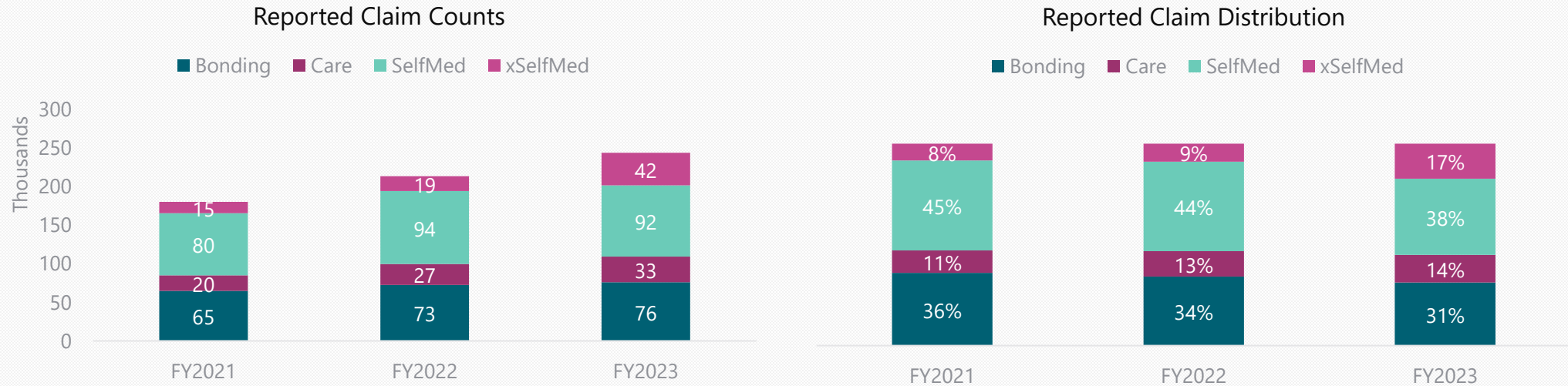
Align premium with cost to be incurred, based on calendar year & leave year



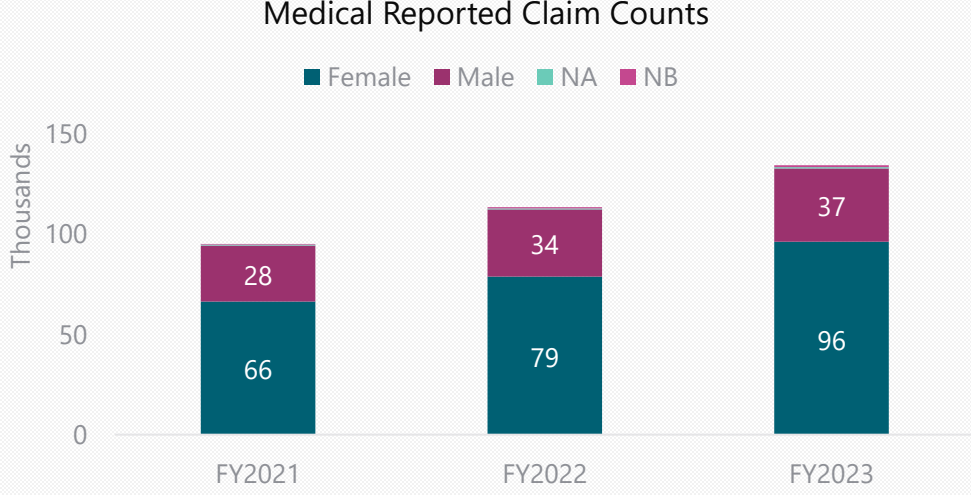
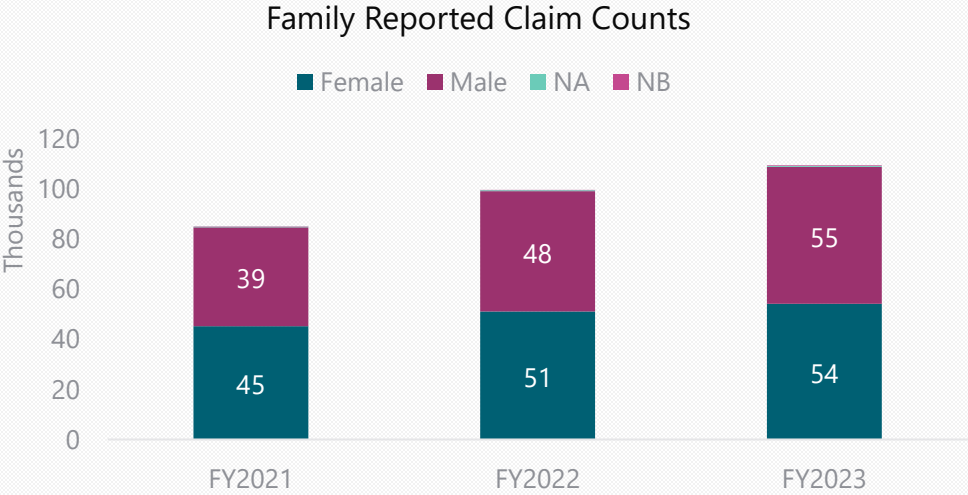
Guiding Rules/Practice/Principles

- Actuarial Standards of Practice
- Claim Reserve Manual
- Principles of P&C Ratemaking

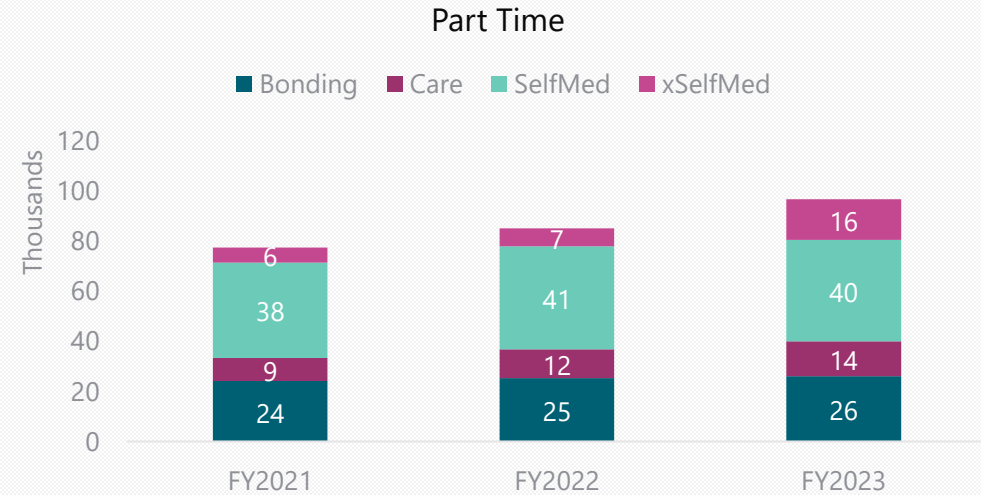
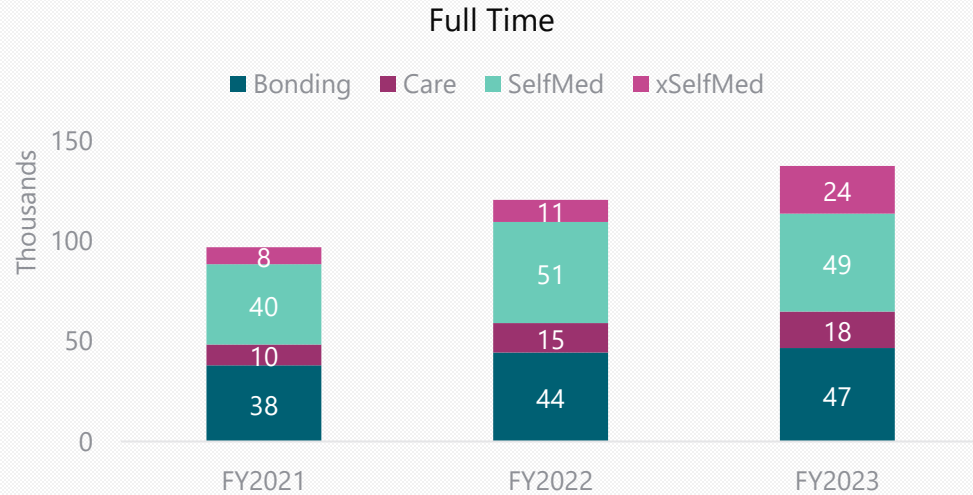
Appendix – Reported Claim Counts by Leave Type



Appendix – Reported Claim Counts by Gender



Appendix – Reported Claim Counts by Employment Type



Appendix – Sensitivity (\$2 mil per 0.001% rate change)

| What if Actual < > Assumption | | Baseline Rate | Actuarial Rate |
|-------------------------------|---------------------|-------------------|---------------------|
| Economic Condition (growth) | Growth Deviation | | |
| Covered Employees | +0.5% | 0.0001%~0.0007% | 0% |
| Wage | +0.5% | -0.0231%~0.0115% | -0.0225% ~ -0.0078% |
| Leave Experience (trend) | Trend Deviation | | |
| Utilization Rate | +0.5% | +0.001%~0.0108% | +0.0042%~0.095% |
| Approval Rate | +0.5% | +0.001%~0.0154% | +0.0044%~0.0120% |
| Leave Duration | +0.5% | +0.001%~0.0148% | +0.0044%~0.0107% |
| Weekly Leave Payment | +0.5% | +0.0001%~0.0209% | +0.0034% ~0.0194% |
| Expense Ratio | Absolute Difference | | |
| Expense Rate | +0.5% | +0.0009%~-0.0010% | +0.0040%~0.0046% |
| Others | Absolute Difference | | |
| Leave Process Time | -3% | -0.0069%~+0.0011% | 0% |

Program priorities

Alison Eldridge, Transformation Manager

Current priorities

| Project | Status | Due date |
|---|---------------|------------|
| Increase equitable benefit access using data | Nearing close | 9/30/2023 |
| WA Cares: Wage reporting and premiums collection | Nearing close | 10/15/2023 |
| Increasing Paid Leave support in WorkSource Centers | In progress | 10/31/2023 |
| Enable remaining employers to report online | In progress | 10/31/2023 |
| Unclaimed property | In progress | 10/31/2023 |
| Employer webinars | In progress | 12/31/2023 |
| Expiring CBA provisions for Paid Leave | In progress | 12/31/2023 |
| WA Cares: Elective coverage reporting and payments | In progress | 12/31/2023 |
| Annual changes 2024 | In initiation | 1/15/2023 |
| Sharing employee benefit data with employers (5586) | In progress | 1/15/2023 |
| 2023 1099s | In progress | 1/31/2024 |
| Cloud migration: AX and portal | In progress | 3/1/2024 |
| Community engagement model for Paid Leave benefits | In progress | 4/30/2024 |

Future work

Next

- **Benefit application and adjudication improvements (including date of placement change)**
- **Redetermination improvements**
- TNC Pilot (HB 1570)
- Develop a division employee engagement plan
- Support performance management
- **Withhold child support from Paid Leave benefits**
- **Crossmatch UI with Paid Leave benefits**

Later

- **Benefit overpayments**
- **Penalties and interest (employer and employee)**
- **Adding county & legislative district to database**
- **Elective coverage for tribes**
- **Crossmatching L&I with Paid Leave benefits**
- **Collections (employer & employee)**
- **Conditional benefit payments**
- Pre-application for benefits
- Implement community engagement program
- Implement comprehensive authorized representative process

Budget and Staffing Updates

Justin DeFour Program Director

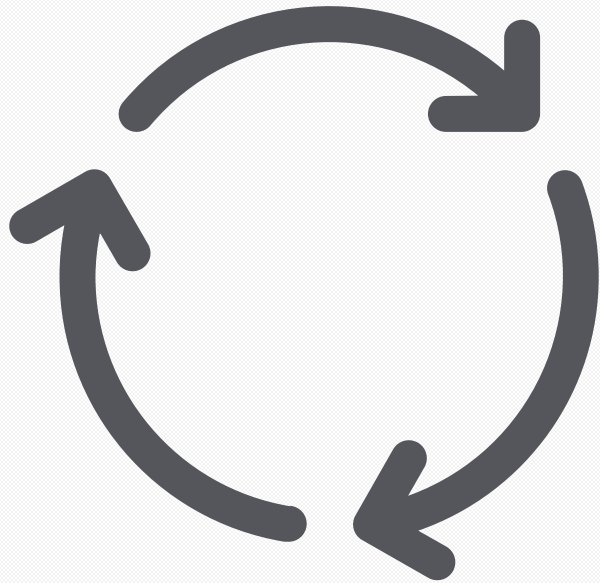
Paid Leave caseload adjustment



\$0, 49 FTE

- Requested adjustment of full time equivalent (FTE) authority to align with expected caseload growth in the program.
- This will resource three teams of customer support staff.
- ESD will absorb the costs of the additional FTEs for FY 2024 within current appropriation level.

Paid Leave system completion



\$8.3M, 48 FTE

- Requested expenditure authority increase to support the completion of program implementation.
- The balance of legal requirements, including collections, recovery, compliance, and service improvements, must be completed to uphold the full intention of the program.
- This funding will resource Technology, Transformation and implementation support staff.

Advisory Committee meeting planning

Caitlyn Jekel, Government Affairs Director

| | | | |
|------------------------|--|----------|--|
| Late July/Early August | <ul style="list-style-type: none"> - Job protection research design overview (2023) - Quarterly account update (premiums/expenses) - Quarterly program volumes, wait times update - Project, Priorities, & Rulemaking updates | January | <ul style="list-style-type: none"> - Quarterly account update (premiums/expenses) - Quarterly program volumes, wait times update - Fiscal projections update - Calendar year-end program highlights - Legislative session check in - Project, Priorities, & Rulemaking updates |
| September | <ul style="list-style-type: none"> - Annual fiscal projections & actuarial report preview - Budget overview - FTE & Budget requests - Legislative & budget submissions to OFM/Gov office: Likely committee action - Project, Priorities, & Rulemaking updates | February | <ul style="list-style-type: none"> - Legislative session check in - Project, Priorities, & Rulemaking updates |
| Late October | <ul style="list-style-type: none"> - Annual changes update – 2024 rate calculation, family-medical split, taxable wage cap, maximum benefit amount - Project, Priorities, & Rulemaking updates | March | <ul style="list-style-type: none"> - Legislative session check in - Ombuds annual report out - Project, Priorities, & Rulemaking updates |
| December | <ul style="list-style-type: none"> - Job protection interim report (2023) and final report (2024) - Program annual report highlights - Governor’s budget - Legislative session prep - Quarterly account update (premiums/expenses) - Quarterly program volumes, wait times update - Project, Priorities, & Rulemaking updates | May | <ul style="list-style-type: none"> - Quarterly account update (premiums/expenses) - Quarterly program volumes, wait times update - Fiscal projections update - Legislative session wrap-up - Project, Priorities, & Rulemaking updates |

October meeting: Hybrid

Details

- Wednesday, October 25, 1 to 3 p.m.

Proposed topics

- Annual updates (2024 premium rate & split, maximum weekly benefit amount, Social Security cap)
- Project, priorities and Rule Making Updates

Open comment

Reminders Please frame your questions as a comment.

If online -“Raise your hand” virtually

In person – let us know and we will give you the floor

The meeting host will unmute online individuals to allow for the open comment.

In person we will call on you

Continue the conversation

Justin DeFour

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