LEGISLATIVE REPORT

Actuarial Annual Report for Paid Family and Medical Leave

NOVEMBER 2024

Employment Security Department
WASHINGTON STATE

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Executive summary

This report documents the results of an actuarial valuation of Washington state's Paid Family and Medical Leave (Paid Leave) program, as required by RCW 50A.05.050. The valuation assesses the financial health of the Paid Leave program and recommends future premium rates needed to pay benefits and manage operations into the future. The valuation is based on data current as of June 30, 2024.

The 2025 calculated premium rates reflect an expected material increase from 2024. Historically, claims outpaced premiums, which resulted in an account deficit in 2023. A $200 million cash injection in 2023 resolved the account deficit. The current regulatory premium rate calculation method only considers prior period experience and not forward-looking costs. The higher account balance that included the $200 million caused the 2024 calculated rate to be lower than the projected experience would indicate. Because of this, prior period claims continue to outpace premiums and a larger increase in 2025 was expected.

Claims experience has generally been higher than projected, which is reflected in larger rate increases in 2025 and 2026. Rates calculated in 2027 are projected to reach 1.2%, which is the maximum allowed premium rate in the statute[1]. This is related to higher claims trends, as well as program changes.

The Employment Security Department (Employment Security) recommends further exploration of adopting actuarial premium rates and shifting to an actuarial rate setting approach. Over time, the actuarial model would provide greater account stability and better match premiums with program expenditures, while potentially leading to a lower tax burden for employers and employees.

Account projections:

- Under the current formula, the Paid Leave account is projected to experience ongoing, periodic deficits through 2026 due to the lower 2024 premium rate, and a continued increase in program benefit costs.
- The account is expected to be -$68 million by the end of 2025, and $185 million by the end of 2026, which are lower than the targeted reserve of three months of benefit payments and administrative costs. The program will continue to have periodic deficits through 2026 because, in addition to the premium being inadequate to cover claims in

[1] For more information on premium maximums, see RCA 50A.10.030.

2024, the 2025 rate is also projected to be inadequate to cover the projected claims during 2025. Because of the continued inadequate premiums, it is projected that the account balance will not become stable and consistently positive until 2027. The accumulated account balance is projected to be 2.4 months of reserve after 2028 premiums are collected.

- Under an actuarial rate setting model as described in this report, the Paid Leave program financial condition is projected to improve over time and stabilize, limit rate fluctuations, and gradually build a reserve. The 2025 rate is set in a way that significantly improves the account balance over the course of the rate year as well as minimizes rate fluctuations in future years, while accumulating a 3-month reserve by the end of 2028 premium collection.

Introduction

As required under RCW 50A.05.050, this report documents the results of an actuarial valuation of the Paid Family and Medical Leave (Paid Leave) program.

The primary purpose of this valuation is to assess the financial health of the program, advise the lowest future premium rates necessary to maintain the solvency of the Family and Medical Leave Insurance Account, and stabilize the premium rate for the next four years, 2025-2028. The valuation is based on data current as of June 30, 2024.

The report contains four sections:

- Summary of results providing high-level program trends and a summary of premium rates.
- Evalution of the program financial condition (health) as of the end of fiscal year (FY) 2024 and discussion of key drivers.
- Actuarial pricing review entailing assessments of actuarial ratemaking while determining the premium rate level, and the projections of the program account balance (FY 2025-2028).
- Appendices summarizing the principal actuarial assumptions and methods, and additional information used to prepare this report.

Reliance and uncertainties

In performing the actuarial analysis, Employment Security relied on Paid Leave administrative data and other public information from various sources. It should be noted that Employment Security identified opportunities to improve data quality, accuracy, and completeness. Employment Security determined key numerical information is mostly accurate and the inaccuracies provided an insignificant impact to the analysis.

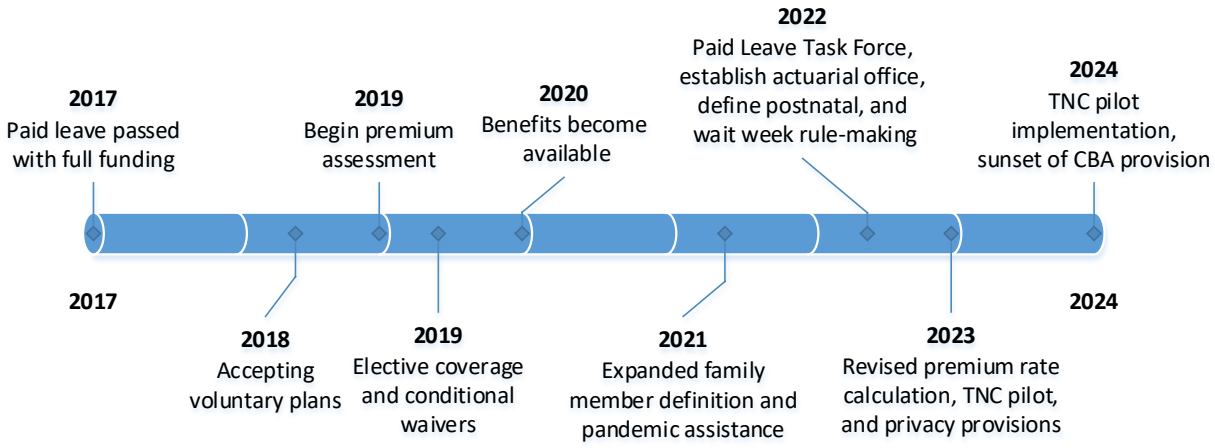
Actuarial standards of practice guide actuaries when performing and communicating their work. As with all projections, there are elements of uncertainty, and the actual experience will almost certainly differ from the projected. The further out the projection, the greater the uncertainty becomes. Although Employment Security endeavors to assess and reduce these uncertainties as much as possible, the reader should be aware these uncertainties cannot be eliminated.

Background

Washington's Paid Leave program allows for up to 12 weeks of paid family leave or paid medical leave for eligible Washington workers who have worked at least 820 hours during a qualifying year. Under certain circumstances, individuals may qualify for 16 or 18 weeks of combined family and medical leave. The law requires employment protection and continuation of employer provided health care benefits for employees in large companies who have been with their employer for at least a year and worked 1,250 hours in the past year. Benefits are progressive, providing up to 90% of participants' weekly pay for each week of leave, and are portable across jobs.

While Washington's Paid Leave program is relatively new, it has undergone many changes since being adopted in 2017. Below is a timeline that depicts the major implementation milestones and legislative changes.

Figure 1: Paid Leave Legislative Changes



Additional historical details around legislative changes can be seen in the previous Annual Actuarial Report. Changes that have been implemented since the 2023 Annual Actuarial Report[2] are included below.

- Second Substitute Senate Bill 5649[3] (2SSB 5649) included a provision in 2022 not requiring some collective bargaining agreements to be renegotiated to comply with the

[2] For more information, see the 2023 Actuarial Annual Report for Paid Family and Medical Leave
[3] For more information, see Second Substitute Senate Bill 5649.

program. It expired Dec. 31, 2023[4]. The effect was an influx into the program of employees in collective bargaining agreements in 2024.

- Substitute House Bill 1570 (SHB 1570)[5] created a pilot focusing on transportation network companies (TNC). The pilot, which began July 1, 2024, requires those companies to pay drivers the premiums assessed for those drivers who choose to elect coverage. The pilot extends through 2028[6].

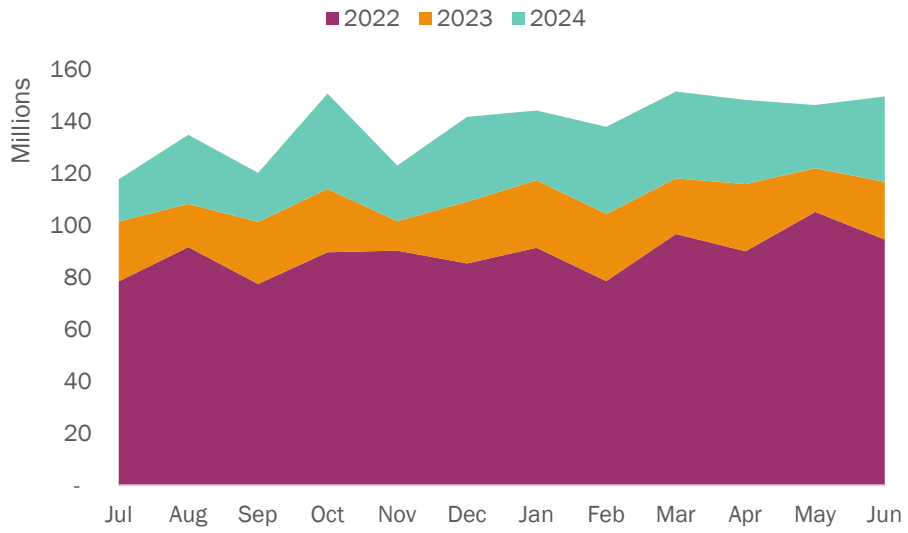
Summary of results

The Paid Leave program was implemented in 2019 and started receiving claims in 2020. The combined forces of the social dynamic shift through and after the pandemic, early program growth, and legislative changes caused program utilization to grow beyond expectations. The program has continued to grow at a high rate through the experience period ending in FY 2024.

The graph below shows the leave benefit payment for each month was significantly higher than the same month of the previous year. For example, payments from January 2022 were at $91 million, compared to $144 million from January 2024. At the same time, Employment Security continued to observe month-over-month claim volatility throughout the year as well as an upward trend for each fiscal year.

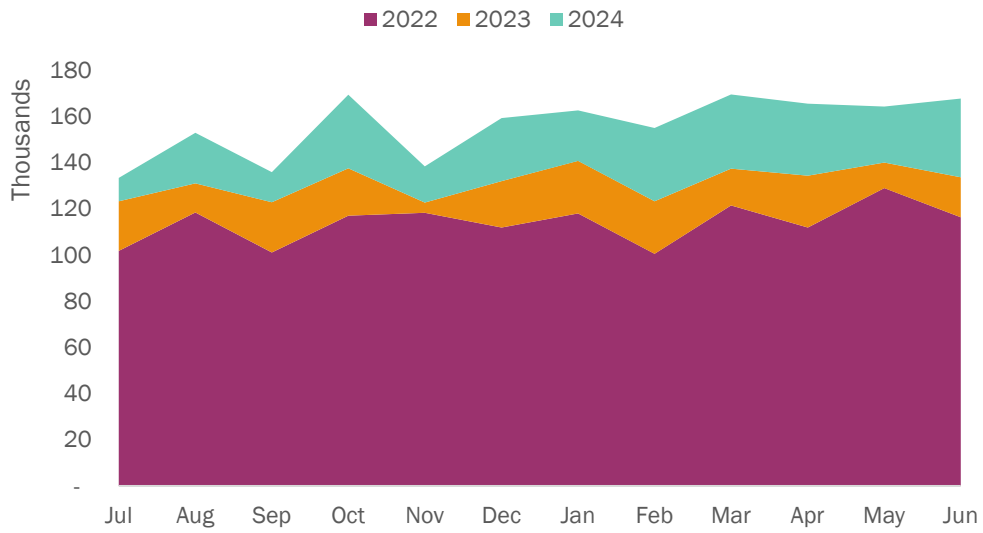
[4] For more information on the expired collective bargaining agreement provision, see RCW 50A.05.090.
[5] For more information, see Substitute House Bill 1570.
[6] For more information on the TNC pilot program, see RCW 46.72B.200.

Figure 2: FY monthly benefit payment ($) by Fiscal Year



The increase in benefit payments is attributed to both the increase in the average weekly benefit amount and the escalated number of claims. The following graph displays the number of paid weekly claims rising to new levels every year. For example, the number of paid weekly claims was 118,000 in January 2022 and jumped to 163,000 in January 2024. Claims in FY 2024 continued to show some volatility and material growth from previous years, with program changes contributing to the growth. Similarly, the average weekly benefit amount increased from high $700s in January 2022 to high $800s in January 2024. The weekly benefit amount will continue to increase in future years as wages increase.

Figure 3: FY Monthly paid weekly claim count (000') by Fiscal Year



Conversely, the premium rates (the rate per gross wage dollar up to the social security cap) did not go up accordingly, nor fast enough. Figure 4 lists the premium rate history since the program started January 2019.

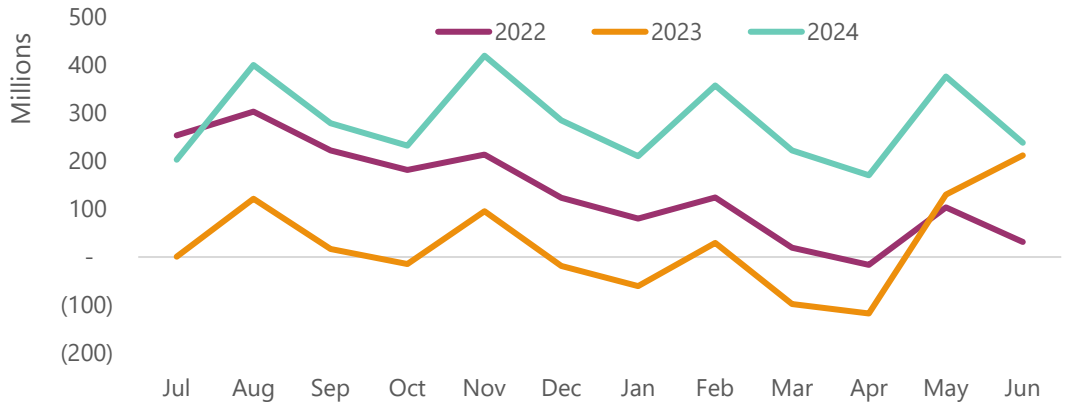
Figure 4: Paid Leave premium rate history

Calendar Year (CY)	Premium Rate
Jan 1, 2020 - Dec 31, 2020	0.40%
Jan 1, 2021 - Dec 31, 2021	0.40%
Jan 1, 2022 - Dec 31, 2022	0.60%
Jan 1, 2023 - Dec 31, 2023	0.80%
Jan 1, 2024 - Dec 31, 2024	0.74%

Historically the collected premium has not matched the pace of the benefit payments. In CY 2024, there was a rate decrease from 0.80% to 0.74% while claims continued to increase.

Because claims were consistently outpacing premiums, an account deficit occurred in 2023. A $200 million cash injection was added to the account to address the deficit. The current rate setting methodology only considers prior experience, so when the 2024 rates were calculated, the higher account balance indicated a lower than adequate rate. No changes were made to how the $200 million was treated in the rate methodology, which kept the premium rate from increasing at the time of the cash injection. However, delaying the 2024 rate increase is projected to contribute to material increases in 2025 and 2026. Employment Security also projects the 2024 rate decrease, as well as increases in claims, will cause account deficits starting in 2025 and continuing through 2026.

Figure 5: FY Monthly Paid Leave account balance ($) by Fiscal Year



Where the Paid Leave program is headed

Employment Security continues to see higher growth in paid claims related to the newness of the program and programmatic changes over time. Looking ahead, we expect wage trends and wage effects on benefit payments to continue, while metrics like utilization rates start to decelerate and stabilize, barring any additional changes to the program.

Under this "expected" scenario, the projected actuarial premium rates are shown in the following table. While developing the premium rates, Employment Security intends to improve the program financial condition over time, limit fluctuations, and build up a three-month reserve[7].

For the same "expected" scenario, the projected baseline premium rates are the result of the premium rate formula established in RCW 50A.10.030[8].

Figure 6: Projected premium rates – actuarial vs. baseline

Calendar Year (CY)	Premium Rate		Premium Rate YOY Change	
start date – end date	Actuarial	Baseline	Actuarial	Baseline
Jan 1, 2025 - Dec 31, 2025	1.05%	0.91%*	42%	23%
Jan 1, 2026 - Dec 31, 2026	1.10%	1.16%	5%	27%
Jan 1, 2027 - Dec 31, 2027	1.15%	1.20%	5%	3%
Jan 1, 2028 - Dec 31, 2028	1.20%	1.16%	4%	-3%

*Estimated premium rate from the projected account balance as of September 2024. Official baseline premium will be published end of October 2024

Employment Security expected the 2024 premium rate would be inadequate to cover the claims experienced. The impact of the inadequate rate in 2024 is only partially captured by the current regulatory rate method in 2025 rate setting as the rates are assessed on a calendar year basis and the experience used to calculate rates is set on a fiscal year basis. Therefore, 2026 rates will also be elevated as they capture the remainder of the effect of the inadequate 2024 rates, as well as additional changes and trends that occurred during 2025. Employment Security projects that after two years of larger increases, the rate increases will start to stabilize under the baseline method.

[7] For more information, see Second Substitute Senate Bill 5649 (2022).
[8] For more information, see Substitute Senate Bill 5286 (2023).

The actuarial rate method reflects a 2025 increase that would set the rate at a more adequate level without carrying forward losses to the same extent as the baseline method. The actuarial rate reflects a higher initial increase because the starting rate considers future experience during the rate year and is adequate to cover the projected claims incurred during that time, as well as contribute towards resolving the carried forward account losses and building a healthier reserve. After the initial increase, rates are stabilized and reflect less rate volatility to employees and employers. At the end of 2028 premium collection, it is projected there will be a 3-month reserve under this method.

The table below shows the financial projections under the "expected" scenario. (1a) is based on the projected actuarial premium rates using the ratemaking approach and (1b) is based on the projected baseline premium rates.

Figure 7: Paid Leave financial projections under actuarial and baseline premium rates

$ millions	FY 2025	FY 2026	FY 2027	FY 2028
(1a) Premium Collection (actuarial)	$1,941	$2,633	$2,925	$3,242
(1b) Premium Collection (baseline)	$1,852	$2,422	$3,074	$3,313
(2) Leave Benefit Payment	$2,025	$2,328	$2,631	$2,970
(3) Net Administrative Costs	$76	$83	$81	$75
(4a) Account balance = (4a@Prior FY) + (1a) – (2) – (3)	$85	$307	$520	$717
(4b) Account balance = (4b@Prior FY) + (1b) – (2) – (3)	-$5	$6	$369	$637

Note: Numbers may not add up due to rounding. Changes in investment income are not reflected.

Due to the inadequate rates in 2024, it is expected to take a few years for the account balance to rebound. The actuarial rates introduce a more adequate rate in 2025 to minimize the extent of future carried forward losses as well as reduce the volatility of future rate increases.

How the future can look different

The projection measures in the prior section are based on best estimate assumptions for the future. These assumptions are made on an expected basis. Meanwhile, the areas where the future may be different from the expected should be considered, which would drive the biggest deviation from the projection.

- Social dynamics – Salaries, ages, companies' leave policies, workforce composition, and family dynamics may differ from Employment Security's assumptions.
- Legislative or policy changes – Any of these changes not known at the time of preparing the report could lead to deviations from projected results.
- Economic conditions – Any recession in the coming four years could impact the workforce and the program revenue, and the length and magnitude can significantly impact the projections.
- Others – There are operational changes and risks to run an insurance program, such as system breakdowns, policy changes from court decisions, and public perceptions about the program (rates or financial status). Certain impacts are temporary (system breakdown) and some could be permanent (court decisions).

Taking actions to improve the program's financial condition sooner rather than later, enhancing existing processes, and identifying opportunities for improvement will help the program cope with uncertainty in the future.

Financial condition

Summary

In this section, Employment Security uses the Paid Leave program financial statements[9], and prepared actuarial income statement, actuarial balance sheet[10] and actual cash flow to measure the program's financial condition.

- The income statement indicates if the program has been adequately priced to result in positive income (enough revenue to cover total expenditures, including both leave benefits and administrative cost).

[9] FY 2024 financial statements are prepared by the Financial Services Division as of September 10, 2024. Year-end capitalization entries, OPEB pension entries, and other small immaterial adjustments are not included in these financial statements.

[10] FY 2023 balance sheet was the first year adopting the actuarial claim payable. For reporting purpose, Employment Security restated claim payables in the balance sheet assuming same principle had been carried through. Please note that the restated balance sheets are meant to address historical financial condition under same principle in this report and should not be used for any other purpose.

- The balance sheet shows if there are enough contingency reserves or equity (including retained earnings overtime and injected funds or capital) set aside to guard against future unexpected events or expenditures.
- The cash flow exhibits the ability of the program to pay its expenditures when due.

Employment Security advises to take into consideration all three outlined conditions before making an assessment on the financial condition of the Paid Leave program. The overall health of the program is dependent on various components and historical experience may not match the future projections.

The following table is a summarized actuarial income statement[11] from fiscal year (FY) 2022 to current FY 2024.

Figure 8: Summary of income statement ($ million)

$ millions	FY 2022	FY 2023*	FY 2024
(1) Total Revenue	$960	$1,510	$1,740
(2a) Claims[12]	$1,082	$1,383	$1,715
(2b) Administration expenses	$51	$75	$78
(2) Total Expenditures	$1,133	$1,457	$1,794
(3) Net Income (Loss) = (1) – (2)	-$172	$53	-$54
(4) Net Income (Loss) after Contribution	-$172	$253	-$54
(5) Financial Loss Ratio = (2a) / (1)	112.7%	91.6%	98.6%
(6) Financial Combined Ratio = (2) / (1)	117.9%	96.5%	103.1%

Note: * include $200 million cash injection. Numbers may not add up due to rounding.

The program experienced a net loss of $174 million from 2022 to 2024 and a net gain of $26 million after the $200 million state contribution. The negative net income (financial combined ratio > 100%) or loss was driven by inadequate revenue (inadequate premium rate) to cover the total expenditures incurred during the same year. There were increases in revenue, mainly aided by the wage growth and a higher premium rate of 0.80% effective Jan. 1, 2023 (mid of FY 2023). As a result, 2023 had a net gain of $53 million from a net loss of $172 million in 2022. However, although revenue increased in FY 2024, total expenditure increases outpaced revenue which resulted in losses of $54 million.

[11] Income statements restated (2a) Claims, (3) Net Income (Loss) and (4) Net Income (Loss) after contribution based on restated balance sheets. Like footnote #10, the restated income statements should not be used for any other purpose.

Figure 9 shows the impact from the program net income (loss) on its contingency reserve since 2022, and its contingency reserve position at the end of each fiscal year (2022-2024).

Figure 9: Summary of balance sheet ($ million)

	FY 2022	FY 2023*	FY 2024
(1) Total Assets	$454	$765	$808
(2) Total Liability	$279	$337	$404
(2a) Claim payable[12]	$195	$253	$296
(2b) Other liability	$84	$84	$108 **
Previous Contingency Reserve	$346	$173	$226
Net Income (Loss) [13]	-$172	$53	-$54
Net Income (Loss) after Contribution[14]		$253	
(3) Total Contingency Reserve=(1)-(2) [15]	$175	$427	$404

Note: * includes $200 mil cash injection. Numbers may not add up due to rounding

** There was an increase in unearned premium in (2b) Other Liability in Fy2024. This change is largely due to premium received without corresponding wage reports and there are ongoing efforts to collect he related wage reports.

Combined with Figure 8, the program's contingency reserve increased from $175 million at the end of 2022 to $404 million in 2024; the $200M cash contribution in 2023 largely contributing to this change. The 2024 latest contingency reserve level is $404 million, and this amount is close to the estimated contingency reserve (about $854 million) under National Association of Insurance Commissions (NAIC) for similar insurance risk.

Figure 10 presents the cashflow contribution by different activities from 2022 to 2024, as well as the ending cash and cash equivalents position for each fiscal year.

[12] Claim payable reflects the claims that have incurred but not reserved (IBNR). For FY2023 & 2024, the published historical claim payables were about $256 million and $312 million, respectively.
[13] Net Income (Loss) is from Figure 8, item (3).
[14] Net Income (Loss) after contribution is from Figure 8, item (4).
[15] Total Contingency Reserve can be calculated two ways, one is directly calculated as the difference between total assets and total actuarial liability, and the other is calculated via previous year contingency reserve and the net income from current year.

Figure 10: Summary of cash flow as of June 30, 2024 ($ million)

	FY 2022	FY 2023	FY 2024
(1) Cash and cash equivalents at beginning of the year	$284	$28	$207
(2) Net Cash Provided by Operating Activities	-$254	$186*	$2
(3) Investment of other Financing Activities	-$2	-$7	$11
(4) Net Increase (Decrease) in Cash and Cash Equivalents = (2) + (3)	-$256	$179*	$13
(5) Cash and cash equivalents at end of year = (1) + (4)	$28	$207	$219

Note: *include $200 mil cash injection
Numbers may not add up due to rounding.

The program incurred negative cash from operating activities for 2022 and 2023, with 2023 only positive due to the $200M cash injection. Over the past three years, the program cash position dropped from $284 million at the beginning of 2022 to $219 million at the end of 2024, including the $200 million contribution. The program's cash position indicates no funds available to pay its expenditures when due until the $200 million cash injection happened in June 2023.

In 2024, the program had minimally positive net cash from operating activities, shown in (3) Investment of other Financing Activities in Figure 10. Also, investment income received was materially positive. Increases in investment income can help offset administrative expenses to the program. Looking back at three fiscal years (2022 to 2024), excluding the $200 million contribution, the program's financial condition has been deteriorating, mainly driven by the challenge of implementing adequate premium rates matching the increasing expenditures. At the conclusion of 2024, the program contains some contingency reserve to protect its solvency from unexpected events or trends, especially with the $200 million cash injection.

Looking ahead, Employment Security expects the program total expenditures will continue to rise. Following the rate setting structure in current statute, Employment Security projects likely short-term deficits to occur in the coming years as the account stabilizes. Conversely, lawmakers could consider shifting to an actuarial rate setting approach, which would support greater account stability.

Historical experience in detail

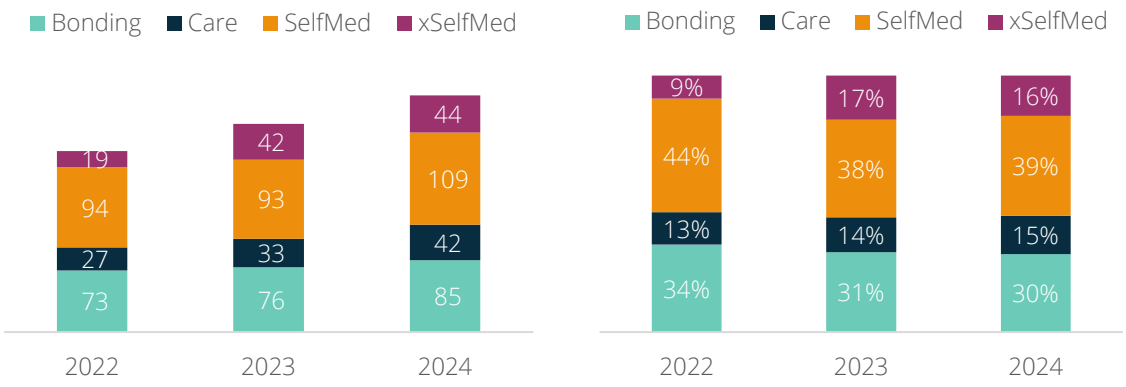
This section presents how different types of leave contributed to this upward trend over the past three years (2022-2024), then reviews the effect from each demographic group using the leave counts (or claim counts).

Historical experience by leave type

In Washington, there are four main leave types to account for different situations. Under family, there is bonding and care, while under medical there is leave for one's own health (SelfMed) and care relating to pregnancy or birth (xSelfMed). There is also military leave – which reflects less than 0.3% of historical paid claims.

The following graph (left) shows submitted claim counts went up for the four major leave types from 2022 to 2024, but each went up at a different pace and caused the year-over-year shift in distribution (right). Ranked by count (left), SelfMed is the most used, followed by Bonding. XSelfMed increased in 2023 to overcome Care for third most utilized leave type.

Figure 11: FY Historical claim counts (000') and share by major leave type.

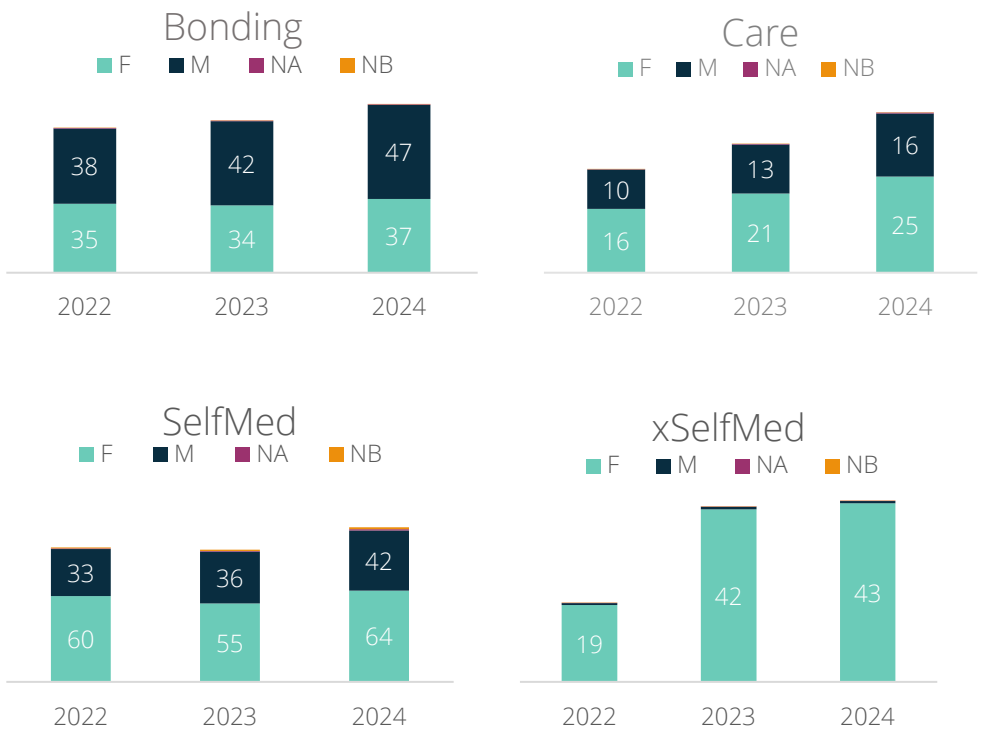


The leave share (right) split between family (Bonding & Care) and medical (SelfMed & xSelfMed) has not changed significantly. Conversely, the leave shares within medical have changed materially from 2022 to 2023. SelfMed leave was around 44% in 2022. By 2023, the SelfMed leave share declined by 6% to 38% and xSelfMed rose by 8% to 17%. The shift reflects the implementation of 2SSB 5649 in June 2022, which shifted additional pregnancy-related SelfMed claims to the birth-related category, xSelfMed. Leave shares within medical and family did not shift significantly 2023 to 2024.

Historical experience by demographics

The following is an examination of program usage by gender and type of employment from 2022 to 2024. There were prominent shifts by gender that varied by leave type, but milder movement by type of employment with a consistent trend across leave types.

Figure 12: FY Historical claim Counts (000') by gender

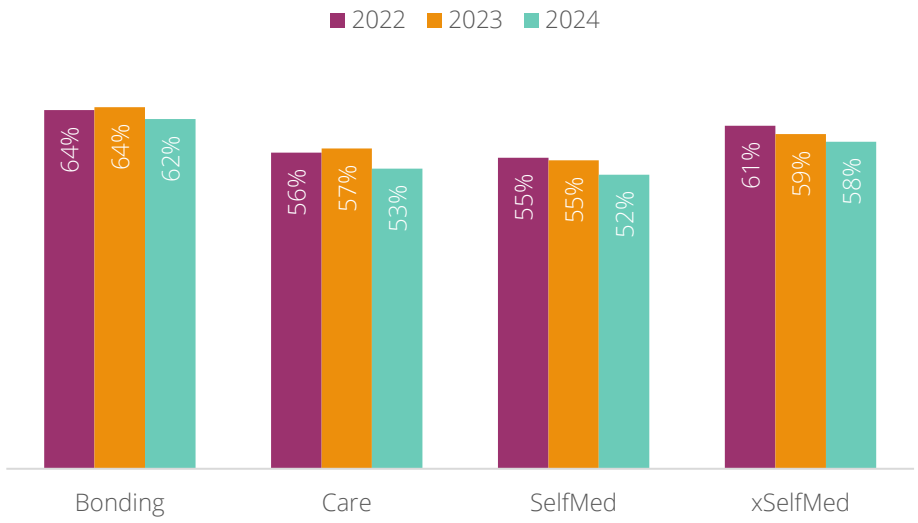


In Figure 12, for family leaves (Bonding & Care), the number of bonding claims (top left chart) submitted by male continues to surpass female. This shift is likely driven by a combination of factors, such as lack of an employer provided paid paternity benefit and an increasing share in household or childcare by males in the post pandemic era. Within care (top right chart), there does not appear to be a similar trend, and females are still taking the leading role to care for a family member.

In the same graph, for medical leaves (SelfMed & xSelfMed), the number of SelfMed leaves (bottom left chart) taken by males climbed, and at a faster rate than females over the two-year period. The bottom right chart indicates that most xSelfMed leaves were taken by females and surged since the 2SSB 5649 changes came into effect (June 2022).

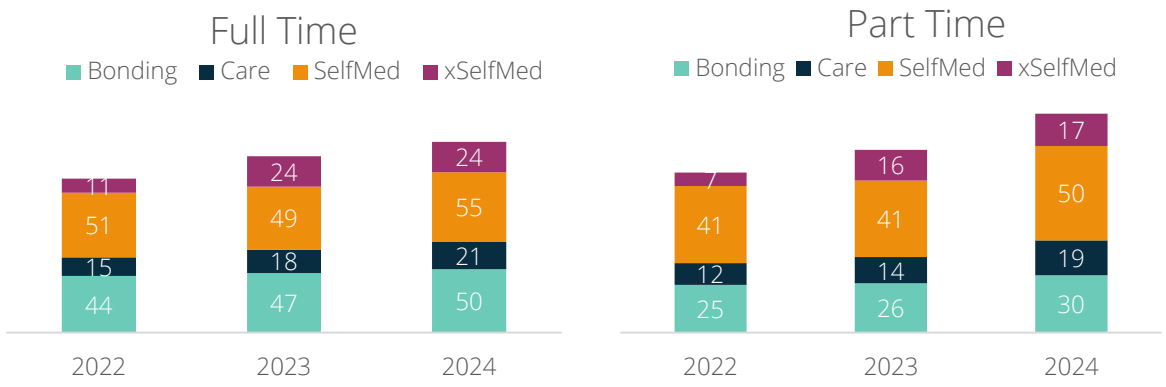
Meanwhile, Employment Security examined the leave mix between full-time (39+ hours/week) and part-time workers in 2022-2024. The shifts in leave share between full time and part time workers are consistent but show a small drop in 2024.

Figure 13: FY Leave share by full time workers.



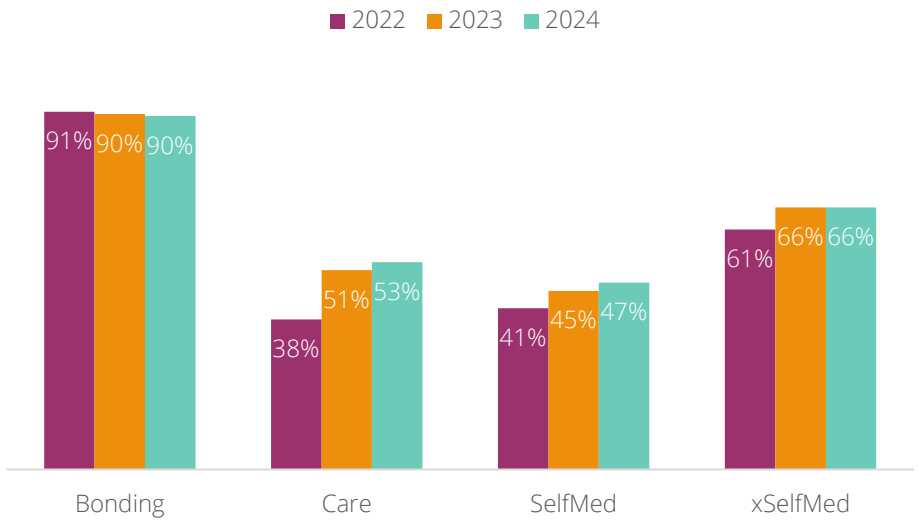
Comparing across employment types (Figure 14), Employment Security found consistent up and down trends by leave types. However, there has been a noticeable difference in the type of claim submissions between the two types of employees. Full-time employees are more willing to take bonding leaves than part-time employees. There could be many factors driving the variances, with job security and disposable personal time possibly among them.

Figure 14: FY Historical claim counts (000') by employment type



During claim submission, employees are asked if the leave was anticipated. Generally, Bonding claims were identified as anticipated, while other leave types were split.

Figure 16: Percentage of FY claim counts that were anticipated



Actuarial pricing review

The Paid Leave program premium rate is implemented on a calendar year basis (Jan. 1 – Dec. 31). To estimate the premium rate (aka contribution rates) that projects the program experience from 2025 to 2028, Employment Security developed an actuarial model to evaluate the program financial condition under two different scenarios. They are:

(1) Baseline premium rates based on calculations outlined in RCW 50A.10.030[16].

(2) Actuarial premium rates with a provision for risk variation and progress towards an adequate reserve [17] excluding interest income.

In this section, the projected program performance from rate period 2025 to 2028 under each scenario is summarized. Then the report elaborates on the implications for the Paid Leave program financial condition. Lastly, the report expands on the assumptions and methodology supporting this actuarial pricing review.

[16] For more information, see Substitute Senate Bill 5286 (2023).

[17] Actuarial provision assumption is based on the program financial health as of FY2024 and projected financial health under the proposed actuarial rates. The actuarial provision assumption will be revised accordingly if the future rate actions materially differ from the proposed actuarial scenario.

The following terms are included in this section:

- Projected rate period – calendar and leave year (CY-LY) 2025 – 2028.
- Covered employees (millions) – projection of employees during projected period based on historical employee participation and the employment growth forecast. These are active employees the premium is assessed for.
- Benefit eligible employees (millions) – employees that are eligible to utilize benefits. The 4Q rolling average of covered employees, adjusted for any programmatic changes, are used to approximate the benefit eligible employees.
- Taxable Wages ($ millions) – projection of taxable wages based on latest taxable wage and employment, and the wage and employment growth forecast.
- Premium rate – projection of rates as percentage of the taxable wages and based on projected rate period.
- Assessed premium ($ millions) – projection of premium assessed based on the wages earned during the projected period and expected to be paid by the employees and employers or elective policy holders.
- Premium exemption ($ millions) – projection of assessed premium exempt from small employers.
- Ultimate leave benefit ($ millions) – projection on a leave year basis, and the ultimate payments for the leaves first starting in the projected rate period.
- Administrative expenditures ($ millions) – projection based on steady state assumption that the cost is largely based on Employment Security staff salaries.
- Interest income ($ millions) – interest income based on net interest rate forecast from Washington State Treasurer's Office as of June 2024.
- Pricing income (loss) ($ millions) – the projection of net gain or loss based on the implemented premium rates, equal to the assessed premium subtracting the total expenditures net of estimated interest income. A positive pricing income over time will build up the account reserve to protect the program solvency from unexpected events.
- Leave benefit ratio – the projected ratio of leave expenditure to assessed premium.
- Expense ratio – the projected ratio of administrative expenditures to assessed premium.
- Combined ratio – the projected ratio of total net expenditures (leave expenditures plus administrative expenditures minus interest income) to assessed premium. A combined ratio (pricing) of 100% indicates break even, over 100% means an inadequate premium rate, and below 100% implies a sufficient premium rate to cover all the expenditures for the pricing year (rate year), assuming there's no variation from the projection.

- Account reserve ($ millions) – the reserve is to protect the account solvency from unexpected events.

Pricing review summary

The pricing review for both baseline and actuarial premium rates is based on actuarial assumptions that drive the future leave benefit experience. Employment Security did not include the cost of small employer grants as part of the total expenditures due to its immateriality. In addition, no changes to the voluntary plan participation from the latest year were assumed. However, known program changes were included in the projection.

Employment Security expects the future leave benefit experience to continue to trend up at a higher rate than employment and wage growth, as reflected in the assumptions shown in the Data and Assumptions section.

(1) Because of the inadequate 2024 rate, Employment Security expected there will be larger increases in 2025 and 2026 to address higher expenditures and account solvency. After the large rate increases, the rates are expected to stabilize in 2027 and 2028 as follows: 0.91% in 2025, 1.16% in 2026, 1.20% in 2027, 1.16% in 2028.
    a. The 2027 rate is projected to be at the legislative cap of 1.20%, but not above it. Therefore, the 2027 rate would still be 1.20% without the cap.

(2) According to the actuarial model, the actuarial premium rate would trend with future expenditures and start building up the solvency reserve gradually. To contribute towards alleviating the carried forward losses from 2024 as well as set an adequate rate for the future, there is an initial large increase in 2025 with only small fluctuations thereafter. The actuarial premium rate will increase to 1.05% in 2025, then gradually increase in later years to 1.10% in 2026, 1.15% in 2027 and 1.20% in 2028, assuming no cap.

    a. For this modelling, it is assumed that the 2025 rate is set in a way that significantly improves the account balance over the course of the rate year as well as minimizes rate fluctuations in future years while targeting a 3-month reserve by the end of 2028 premium collection. The initial larger increase in 2025 could be spread across multiple years at the expense of the account balance, however a stable and adequate rate would still equate to a material increase over 2024.

Each premium rate scenario will result in different combined ratios and generate different pricing income (loss) and account reserve contributions from 2025 to 2028. The following tables summarize the pricing income (loss) from each premium rate scenario. The tables are based on incurred costs and assessed premiums in the calendar year the leave was incurred, noted as "CY-LY":

Figure 17: Projected pricing income (loss) from baseline premium rates

Amount ($ million)	CY-LY 2025	CY-LY 2026	CY-LY 2027	CY-LY 2028
(1) Baseline premium rates	0.91%	1.16%	1.20%	1.16%
(2) Covered Employees	3.52	3.55	3.58	3.61
(3) Taxable Wages	$262,446	$277,330	$293,360	$310,384
(4) Premium Exemption	-$164	-$212	-$223	-$219
(5) Benefit Mix	-$4	-$6	-$6	-$6
(6) Assessed Premium	$2,220	$2,999	$3,291	$3,376
(1) x (3) + (4) + (5)				
(7) Leave Expenditure	$2,232	$2,527	$2,854	$3,220
(8) Administrative Expenses	$83	$86	$88	$91
(9) Interest Income	$2	$3	$11	$17
(10) Pricing Income (Loss)	-$94	$389	$360	$82
= (6) – (7) – (8) + (9)				
(11) Leave benefit Ratio = (7) / (6)	101%	84%	87%	95%
(12) Expense Ratio = [(8)-(9)] / (6)	4%	3%	2%	2%
(13) Combined Ratio = (11) + (12)	104%	87%	89%	98%

Note: Numbers may not add up due to rounding

Figure 18: Projected pricing income (loss) from actuarial premium rates

Amount ($ million)	CY-LY 2025	CY-LY 2026	CY-LY 2027	CY-LY 2028
(1) Baseline premium rates	1.05%	1.10%	1.15%	1.20%
(2) Covered Employees	3.52	3.55	3.58	3.61
(3) Taxable Wages	$262,446	$277,330	$293,360	$310,384
(4) Premium Exemption	-$190	-$201	-$214	-$226
(5) Benefit Mix	-$5	-$5	-$6	-$7
(6) Assessed Premium	$2,561	$2,844	$3,154	$3,492
(1) x (3) + (4) + (5)				
(7) Leave Expenditure	$2,232	$2,527	$2,854	$3,220
(8) Administrative Expenses	$83	$86	$88	$91
(9) Interest Income	$5	$11	$16	$20
(10) Pricing Income (Loss)	$250	$242	$228	$201
= (6) – (7) – (8) + (9)				
(11) Leave benefit Ratio = (7) / (6)	87%	89%	90%	92%
(12) Expense Ratio = [(8)-(9)] / (6)	3%	3%	2%	2%
(13) Combined Ratio = (11) + (12)	90%	91%	93%	94%

Note: Numbers may not add up due to rounding

At the end of the projected rate period, each projection of premium rate scenarios will contribute to the program contingency reserve by $738 million (baseline premium rates) and $922 million (actuarial premium rates) respectively. At the same time, the program will exempt smaller employers with assessed premium amounts of about $818 million (baseline premium rates) over the four years.

Under the baseline premium rates scenario, the combined ratio starts at greater than 100% to reflect that the assessed premiums are expected to not be adequate to cover total incurred expenses in 2025. The combined ratio is less than 100% in later years due to rate increases. However, the rates are projected to decrease in 2028, causing the combined ratio to increase close to 100% again.

Under the actuarial premium rates scenario, the combined ratio starts at 90% in 2025 and increases over time to a targeted 95%, before investment income. This shows the 2025 rates are expected to be adequate to cover claims and contribute towards alleviating the account balance deficit, as well as accumulate a 3-month reserve at the end of the 2028 premium collection. After 2025, as the account balance becomes stable, less of the rate contributes

towards the account balance and the combined ratio is intentionally increased over time, targeting 95% before interest income.

Based on the projection at CY-LY basis, Employment Security uses a cash flow model to project the account balance for the next 48 months, four fiscal years (2025-2028). *Figures 19* and *20* illustrate the program cash balance (or account balance) movement and suggest:

(1) Under the baseline premium rates scenario:

   a. The lowest account balance projected is a deficit of $219 million in April 2026 and the maximum account projected is a balance of $886 million in May 2028.

   b. The ending account balance in June 2028 is projected to be $637 million.

- After the 2028 premium is collected in early 2029, it is projected the account balance will be $560 million, the equivalent of 2.4 months of the regulatory reserve target for that year.

(2) Under the actuarial premium rates scenario:

   a. The lowest projected account balance is a deficit of $94 million in April 2025, and the maximum account balance projected by FY 2028 is a balance of $981 million in May 2028.

   b. The ending account balance in June 2028 is projected to be $733 million.

- After the 2028 premium is collected in early 2029, it is projected the account balance will be $743 million, enough to satisfy the projected 3-month reserve for that year.

Below are the account balance projections under both the baseline premium rate and actuarial premium rate scenarios. Although under both scenarios it will take time for the account balance to be consistently positive, the actuarial rate method shows more consistent and measured changes to the account balance over time.

Figure 19: FY Monthly account balance ($) projection – baseline premium rates

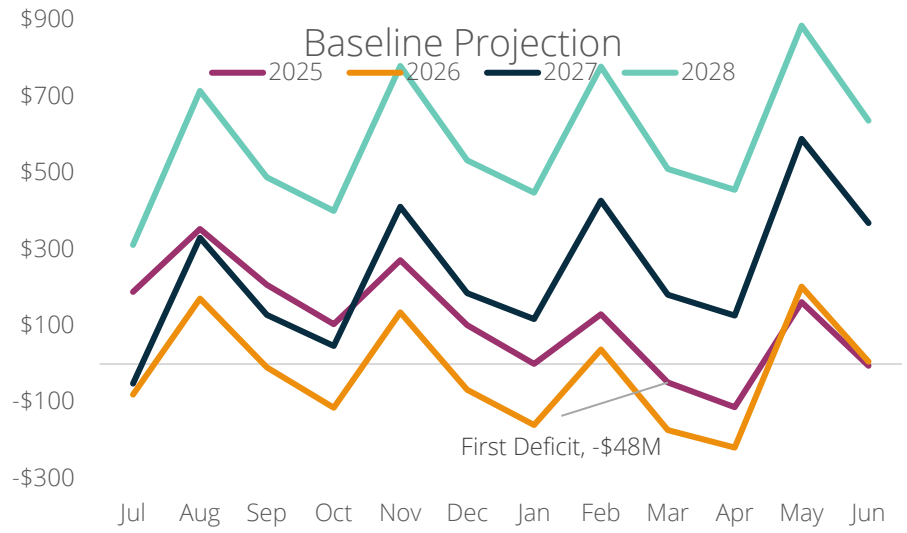
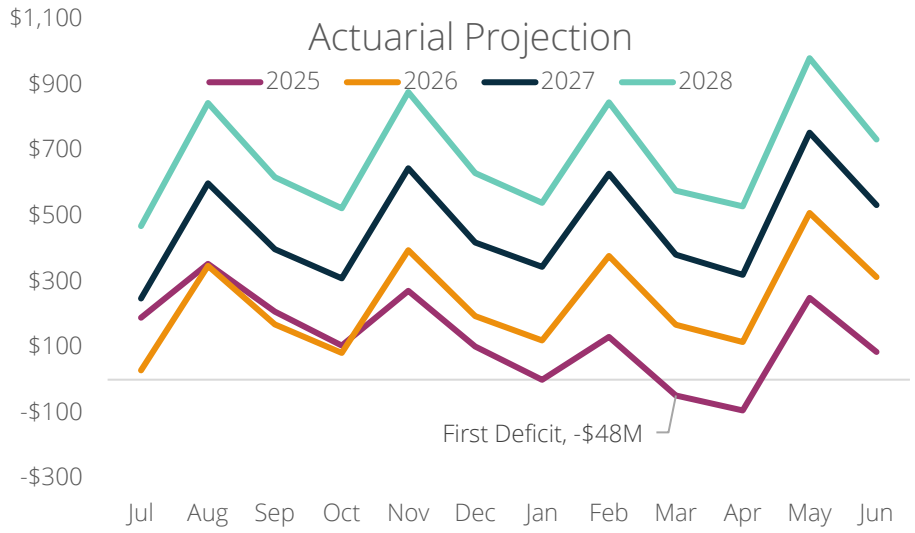


Figure 20: FY Monthly account balance ($) projection – actuarial premium rates



Considerations when reviewing the monthly reserve in the graphs above:

- The account balance equivalent months of reserve can vary by >1 month from month to month due to premium payment patterns.
- The amount 1 month of reserve is worth is recalculated annually as of September 30.

Data and assumptions

Covered employees and wages

Usually, the covered employees and taxable wage show seasonal growth. Covered employees exhibit seasonality in the second and third quarter of the year and decline in the fourth and first quarter, and taxable wages present a downward trend from the second to the fourth quarter due to the social security cap.

- Covered Employees: The covered employees exhibited about 2.8% growth over two years: 2.4% between Q2 2022 and Q2 2023 and 0.4% annual growth between Q2 2023 and Q2 2024. The observed trend is slightly higher than the June forecast from the state's Economic and Revenue Forecast Council's (ERFC) outlook on Employment growth for 2023 of 1.9%, and lower than the 2024 trend of 1.3%.
- Wage data: Employment Security observed consistent wage growth for employees covered under the program between family and medical coverage. The premium wage (taxable wage) for both medical and family coverage presented a trend of 13% increase over two years: around 5% annual increase between Q2 2022 and Q2 2023 and around 8% annual increase between Q2 2023 and Q2 2024.

Figure 21: Covered employees and wage data

Year Quarter	Covered Employees	Avg Annual Taxable Wage	
		Family	Medical
20213	3,329,234	$57,720	$57,617
20214	3,316,230	$56,444	$56,369
20221	3,256,982	$70,798	$70,651
20222	3,374,319	$66,881	$66,780
20223	3,500,001	$62,695	$62,587
20224	3,411,022	$56,903	$56,831
20231	3,349,915	$77,347	$77,208
20232	3,453,619	$70,270	$70,113
20233	3,521,357	$63,913	$63,818
20234	3,451,398	$59,931	$59,854
20241*	3,421,495	$81,443	$81,316
20242*	3,468,648	$75,834	$75,727

Note: * indicates the numbers are estimates due expected restatement of actuals

- **Projected employment and wage growth:** Employment Security considers multiple sources of data when setting the wage and employment forecasts. In addition to historical trends and projected impacts due to programmatic changes, the latest forecast "June 2024" from the state's ERFC[18], and the latest state population forecast "November 2023" from the Forecast and Research Division, Office of Financial Management[19] are considered. The table below summarizes the growth rates:

Figure 22: Washington state economic and revenue projections, June 2024, State population forecast, November 2023

Year	Employment Growth	Wage & Salary Disbursements Growth	Consumer Price Index Growth	Population 22-67 Growth
2024	1.2%	3.5%	3.4%	0.6%
2025	1.3%	2.9%	2.8%	0.4%
2026	0.9%	2.5%	2.5%	0.5%
2027	1.0%	3.4%	2.5%	0.6%
2028	0.9%	2.4%	2.5%	0.6%

While the above metrics are considered, they also do not directly represent the Paid Leave program as the population and wages used for the purpose of premium calculation will be different, due to factors like the presence of voluntary programs and premiums based on taxable wages only, among others. In addition, there could be drivers of change that would be specific to the program, like statutory benefit changes. Previous experience is also reviewed and considered.

Figure 23: Projected CY change for covered employee growth and wages

Year	Projected Covered Employee Growth	Projected Taxable Wage Growth
2025	0.5%	3.5%
2026	0.9%	4.8%
2027	0.9%	4.9%
2028	0.9%	4.9%

[18] Washington State Economic and Revenue Forecast, June 2024 Volume LIII, No. 2
[19] State of Washington Forecast of the State Population, November 2023 Forecast

Leave benefit

The ultimate leave benefit is determined by how often covered employees use the program, the length of leaves taken, and the taxable wages of the covered employees. A four-quarter rolling average of covered employees is used to approximate benefit-eligible employees, as employees do not lose eligibility just because they are no longer a covered employee.

Generally, 2024 claims by benefit and employer type are used as a starting point for the projection. These claims are adjusted by claim trends, seasonality for the weekly benefit payment, and any known programmatic changes.

Leave benefit utilization

The leave benefit utilization rate (UR) is the number of leave claims per thousand benefit eligible employees. Some of the initial filed claims will be denied after review, so the approved UR is the number of leave claims per thousand benefit eligible employees approved after adjudication.

Historical data has continued to show higher UR trends, driven by the newness of the program and intermittent programmatic changes. Barring unknown future programmatic changes or external drivers, it is projected that the UR will begin to stabilize during the projection period.

The approval rate has typically increased over time, but that growth has largely stabilized during recent quarters with some fluctuation around 90% for Family and 85% for Medical.

Figure 24: Historical benefit utilization rate and approval rate

Leave Quarter	Family			Medical		
	UR	Approval%	Approved UR	UR	Approval%	Approved UR
20213	8.0	87%	6.9	8.8	80%	7.0
20214	7.4	87%	6.5	8.1	81%	6.6
20221	7.7	87%	6.7	8.8	80%	7.0
20222	7.5	88%	6.6	9.2	81%	7.5
20223	7.8	89%	6.9	9.9	83%	8.1
20224	7.9	90%	7.1	9.4	83%	7.8
20231 (E)	8.4	89%	7.5	10.4	83%	8.6
20232 (E)	8.4	90%	7.5	10.2	84%	8.6
20233 (E)	8.6	90%	7.7	10.3	84%	8.7
20234 (E)	9.0	90%	8.2	10.5	85%	8.9
20241 (E)	9.5	90%	8.6	11.7	85%	9.9
20242 (E)	9.5	90%	8.6	12.0	85%	10.2

Note: (E) indicates the rates are estimates based on the reserve analysis and follow claims reserving manual[20].

The projected annual change for leave UR is based on the observed historical trend, considering any known programmatic changes, as well as leave and employer type mix changes. Employment Security expects 2025 UR trend to continue to be slightly higher as programmatic changes around the CBA provision sunset and TNC pilot are realized, with some decrease in the growth rate in later years as URs stabilize. Although 2025 UR trend rates are higher than future projected years, the trend rates still reflect improvement over historical years.

The growth in recent historical approval rates has decreased and they have become largely stable. It is expected that there will be some fluctuation in 2025 as programmatic changes affect claim mix and submitted claims continue to grow, but stabilization is anticipated in future years.

Figure 25: Projected CY change for leave approved utilization rates.

Projected Period	Family		Medical	
	UR	Approval%	UR	Approval%
2025	8.5%	-0.2%	8.2%	0.3%
2026	5.8%	0.0%	5.8%	0.2%
2027	5.3%	0.0%	5.8%	0.2%
2028	5.2%	0.0%	5.8%	0.2%

Employment Security calculates the projected approved UR on a quarterly basis, then computes the projection of approved leave count using the product of projected benefit eligible employees and the projected approved utilization rate.

Leave benefit cost per claim

The cost of each approved claim, namely leave benefit cost per claim, is mainly dependent on the length of the leave (duration)[21] and the wage of the claimants. The longer the leave duration or the more the claimants earned in the qualifying period, the higher the cost of the leave benefit.

[20] Claim reserving methods could be found in the Institute and Faculty of Actuaries *Claims Reserving Manual*
[21] Leave duration for the purpose of the projection included in this report reflects how many calendar weeks a leave encompassed. The weekly benefit payment similarly reflects the average payment for the average leave taken in a calendar week.

The ultimate benefit per family claim was around $6,300 three years ago and above $7,300 now. A similar increase was observed for medical leaves, which went from an average cost of about $5,600 to $6,700. The increase per claim is mostly driven by the claimants' weekly wages.

The average leave duration varies by claim type, with family leave duration longer than 8 weeks and medical leave longer than 7 weeks.

Figure 26: Historical ultimate leave benefit per claim

Leave Quarter	Family			Medical		
	Weekly Benefit ($)	Duration (Weeks)	Benefit per Claim ($)	Weekly Benefit ($)	Duration (Weeks)	Benefit per Claim ($)
20213	$764	8.28	$6,325	$773	7.15	$5,523
20214	$763	8.36	$6,378	$780	7.17	$5,597
20221	$797	8.41	$6,701	$809	7.25	$5,865
20222	$820	8.25	$6,763	$827	7.32	$6,055
20223	$827	8.14	$6,730	$826	7.43	$6,134
20224	$826	8.09	$6,679	$833	7.34	$6,112
20231 (E)	$856	8.24	$7,054	$860	7.46	$6,420
20232 (E)	$882	8.22	$7,247	$878	7.38	$6,482
20233 (E)	$886	8.28	$7,334	$882	7.43	$6,551
20234 (E)	$879	8.48	$7,456	$890	7.43	$6,612
20241 (E)	$888	8.28	$7,352	$888	7.48	$6,640
20242 (E)	$892	8.26	$7,365	$902	7.42	$6,693

Note: (E) indicates the rates are estimates based on the reserve analysis and follow claims reserving manual[22].

The projected leave benefit per claim is mainly based on wage growth with a seasonality adjustment, and the leave duration will change slightly from the mix shift by leave and employer types.

[22] Claim reserving methods could be found in the Institute and Faculty of Actuaries *Claims Reserving Manual*

Figure 27: Projected CY change for leave benefit per claim

Year	Family		Medical	
	Weekly Benefit	Duration	Weekly Benefit	Duration
2025	6.5%	1.3%	5.5%	1.1%
2026	6.2%	0.4%	5.2%	0.5%
2027	6.3%	0.3%	5.1%	0.4%
2028	6.3%	0.3%	5.1%	0.3%

Utilization Rate by Employer Type

Utilization rates differ materially between the type of employer. Small employers with less than 50 employees tend to have lower utilization rates. Many small employers only have one employee and the inability to easily take time away and continue business functions could contribute to the lower utilization rate. Small employers are also exempted from paying the employer premium rate so the net pricing gain/loss will not vary as materially from large employers as the claims alone would indicate. Large employers with greater than 50 employees have consistently higher utilization rates than small employers.

Elective employees have extremely high utilization rates. As these employees voluntarily enroll, they can make an informed choice on if they plan to utilize the benefit and enroll if that is a possibility and avoid enrolling otherwise. This causes the utilization rate to be extremely high, an average of between 0.5 and 1 claim submitted per employee per year, when comparing claims submitted by elective employees to the estimated eligible elective employees. Although the elective employee count is small comparatively, because this group has such a high utilization rate any programmatic changes that would expand their number or move more employees into a position where they can voluntarily elect coverage could result in material financial impacts to the program.

Figure 28: Unique Covered Employees and Utilization Rates by Employer Type

Year Quarter	Unique Covered Employees			Utilization Rate/1000		
	Small	Large	Elective	Small	Large	Elective
20214	1,136,335	2,329,611	821	8.5	17.4	109.5
20221	1,107,532	2,279,059	911	9.2	19.2	112.7
20222	1,176,331	2,349,756	1,014	9.0	9.0	103.9
20223	1,275,255	2,407,303	1,072	9.1	19.7	138.4
20224	1,195,330	2,366,012	1,148	9.9	19.6	119.2
20231 (E)	1,064,179	2,406,899	1,244	12.6	21.0	133.6
20232 (E)	1,118,696	2,474,080	1,356	12.1	20.2	130.1
20233 (E)	1,160,768	2,510,911	1,411	11.4	20.5	137.9
20234 (E)	1,117,009	2,466,718	1,483	11.9	21.7	146.5
20241 (E)	1,062,535	2,475,399	1,392	13.4	24.1	172.1
20242 (E)	1,101,940	2,497,733	1,214	13.2	24.1	210.4

Note: A small number of employees have multiple sources of employment so the total employees shown here will be greater than the unique employees in the program. Additionally, where these employees have employment across multiple employer types, claims are allocated to employment type based on wages by employment type.

Applying the projected trend to the latest cost per claim, Employment Security calculates the projected leave benefit per claim including seasonal adjustments. The projected leave benefits are the product of the projected leave benefit per claim and the projected approved leave count.

Administrative expenses

Employment Security projected the FY25 general expenses and assumes a flat 3% increase in future years. The assumption is based on the following:

- Staff salaries make up most of the program expenses.
- Generally, operational expenses are likely to grow with cost-of-living increases.

Interest income

Employment Security assumes interest rate accruals on the Paid Leave account based on varying fiscal year projected interest rates.

Appendix I - Paid Leave administrative data

The actuarial analysis relied largely on Paid Family and Medical Leave Administrative data. It is comprised primarily of administrative records supplied by employers (regarding wages reporting and premium assessments) and benefit customers (regarding claim types, durations, and payments).

Wage reports are required on a quarterly basis. Employers submit wage reports to Employment Security on a quartertly basis. The principal data pulled from these wage reports include the total hours worked and gross wage paid within the prior quarter for each employee. Using these records, Employment Security assesses premiums for each employer, which are remitted to Employment Security in each month following the end of the quarter. Reporting months are April, July, October, and January. While employers report total gross wages for employees, premiums are only assessed on wages up to the social security wage cap[23].

Premium responsibility is split between employees and employers. Employers may withhold from employees up to 100% of the family leave premium and up to 45% of the medical leave premium. Employers with 50 or more employees are responsible for 55% of the medical leave premium. Small businesses (employers with 49 or fewer employees) are exempt from paying the employer portion of the premium. However, when a small business receives a small business grant, they are required to pay the employer portion of the premium for the next three years. Those who are self-employed and independent contractors electing coverage are responsible only for the employee share of the premium. Employers with approved voluntary plans are still required to submit wage reports each quarter but if they offer both a family and medical plan they are not assessed premiums. If an employer offers family only or medical only voluntary plan they are assessed premiums for the plan they do not offer.

Those who are self-employed or working as independent contractors may choose to opt-in. This includes individuals who work independently and business owners who may have employees already covered by the program and would like to obtain coverage for themselves. The initial participation period for elective coverage is three years, after which participation changes to an annual basis. Those electing coverage become eligible for leave at the beginning

[23] Employers report total gross wages for employees; however, premiums are only assessed on wages up to the social security wage cap. This is $168,600 in 2024. Annual social security wage caps are produced by the Social Security Administration and each year's wage cap can be found here.

of the quarter after they opt-in if they have met the eligibility criteria of having worked 820 hours in the previous year as shown through wage reporting.

Claim and benefit data are the other primary sources of administrative records. The data records the claim activities from the moment customers apply for benefits. When applying, Employment Security captured the date of the claims being filed, namely reported, and the type of claim leave being applied for. Through the application process, customers must verify employment history, provide a medical certification (if required), and dates of expected leave. They may also provide additional demographic information such as date of birth, gender, and race/ethnicity. To be eligible for benefits an individual must have worked 820 hours in either the base or alternative qualifying period and experience a qualifying event, such as a serious medical condition or the birth/placement of a child. Applicants approved to take leave must also submit weekly claims for each week of leave, relaying information about how many leave hours they took, whether they used other benefits (e.g., unemployment), and other information necessary to calculate the week's benefit payment[24]. Individuals are able to take up to the total number of hours in their typical work week and must take at least eight consecutive hours of leave in a week. Using the administrative data, Employment Security is able to get accurate counts of applications and approved claims broken out by family or medical, as well as provide total weeks of leave used and total benefits paid on each claim for each customer.

The actuarial analysis relied primarily on the claims reported information as of evalution date, including reported and denied count and the benefits paid amount, weeks, and hours. All of the claims are classified on a claim reporting basis.

Employment Security has not discounted future investment earnings, nor has Employment Security explicitly made inflation adjustments to claim amounts payable in the future. However, future claim benefit inflation (wage growth) to the extent evident in the past claim benefit development, wage growth evident in past wage development, and the assumptions from the Economic Revenue and Forecast Council has been implicitly allowed.

To conduct claim valuation and pricing analysis, the data was divided into two categories: family and medical. These categories were further subdivided as follows:

Family

- Bonding
- Care

[24] Benefit amounts, duration, and calculation can be found in RCW 50A.15.020.

Medical

- SelfMed
- xSelfMed (Birth, pregnancy related claims)

The data provided in this report comes from the same source data as other published Paid Leave program administrative data. Employment Security has attempted to reconcile the claim amount, and paid premiums (ending June 2024) used in our analysis against unaudited financial statement with claim payment and premium receivable used. As a result, Employment Security found no significant difference in the data. Employment Security has assumed that analysis drawn from the data is reasonable for conclusion and recommendations.

Appendix II – Premium rates methodologies

(1) The baseline premium rate is defined in RCW 50A.10.030[25], and the calculated premium rate is the ratio of (i) 140% of the prior fiscal year's expenses, including the total amount of benefits paid and Employment Security's administrative costs, substract the balance of the family and medical leave insurance account as of September 30 (ii) prior fiscal year's taxable wages. To illustrate it in formulation,

$$\begin{aligned} &Baseline\ Premium\ rate \\ &= \frac{1.4 \times (claim\ paid\ benefits\ \&\ administrative\ cost\ of\ preceding\ fiscal\ year) - account\ balance}{Taxable\ wage\ of\ preceding\ fiscal\ year} \end{aligned}$$

(2) The actuarial premium rates are using the ratemaking method to ensure the projected premium is enough to cover the expected future expenditures and protect the program from insolvency at given scenarios or confidence level. All the components feeding the formula are the projection of the given rate year.

$$\begin{aligned} &Actuarial\ Premium\ Rate_i \\ &= \frac{Leave\ Expenditure_i + Administrative\ Cost_i}{Taxable\ Wage\ X\ Exeption_i} \div (1 - Target\ Combined\ Ratio) \end{aligned}$$

$$Notation$$

$$i = pricing\ year\ or\ rate\ year$$

$$Leave\ Expenditure = Covered\ employees\ \times Leave\ Frequency\ \times Leave\ Severity$$

[25] Statute was amended by Substitute Senate Bill 5286 in 2023.

where

$$Leave\ Frequency = Incident\ Rate\ \times Approval\ Rate$$

$$Leave\ Severity = \ Leave\ Duration\ \times Weekly\ Benefit$$

$$Taxable\ Wage\ X\ Exemption = Taxable\ Wage\ \times (1 - Premium\ exemption\%)$$

$$Target\ Combined\ Ratio = 1 - (Provision\ of\ adverse\ deviation + any\ additional\ account\ balance\ funding) + Interest\ Income\%$$

Note: This is an example of the actuarial rate method. Small variations to the actuarial rate method are common, such as treating administrative cost as a percentage of claims or premium instead of an additive adjustment to expenses as shown above. Regardless of small adjustments to logic as appropriate, the general principle of setting the premium at a rate adequate, but not excessive, to cover expenses during the rate year remains throughout iterations of the method.

Appendix III – Provision of adverse deviation

Employment Security conducts actuarial reserving analysis while estimating the ultimate leave benefit, and the estimation of the contingency reserve is performed based on the well-recognized approach documented by Thomas Mack in "Measuring the Variability of Chain Ladder Reserve Estimation" (Mack Method). The idea is to bake the provision on top of the best estimated ultimate leave benefit for unexpected adverse events. While the Mack Method is considered when setting the provision for adverse deviation, due to the volatility of the program experience and the unfavourability of the account balance due to the inadequate CY 2024 rate, ultimately the provision baked into the rates will be set at a level meant to be adequate, but not excessive, for deviations in risk as well as to contribute towards a healthier account balance. In the previous year's report, this provision was set at a level only to maintain slow contributions to the account balance. Since then, the account balance is expected to experience a deficit and with the additional volatility of the program, the provision has been increased to a minimum of 5% in later years until the program becomes more mature and volatility stabilizes.

The Mack Method quantifies the variability of chain ladder reserve estimates without assuming any specific distribution and requiring no simulation by establishing a formula for the standard error as an estimate for the standard deviation of the outstanding claim reserves.

From the Chain Ladder method, the outstanding claims reserve for loss month is:

$$R_i = C_{i,I} - C_{i,k}$$

There is only a very small probability for $C_{i,I}$, a point estimate for the ultimate claim benefits amount to be exactly equal to the actual ultimate claim benefits amount. Employment Security therefore wants to know the average distance between the estimated $C_{i,I}$, and the future realized $\boldsymbol{C_{i,I}}$

The standard error (s.e.) ($C_{i,I}$) of $C_{i,I}$ is the standard error s.e. (R_i) of the reserve estimate which is calculated as

$$((s.e.(R_i))^2 = C_{iI}^2 \sum_{k=I+1-i}^{I-1} \frac{\sigma_k^2}{\lambda_k^2}\left[\frac{1}{C_{ik}} + \frac{1}{\sum_{j=1}^{I-k} C_{jk}}\right]$$

Where

$$\sigma_k^2 = \frac{1}{I-k-1}\sum_{j=1}^{I-k} C_{jk}\left[\frac{C_{j,k+1}}{C_{jk}} - \lambda_k\right]^2$$

and the standard error of the overall reserve estimate is calculated as

$$((s.e.(R_i))^2 = \sum_{i=2}^{I}\left\{((s.e.(R_i))^2 + C_{iI}\left[\sum_{j=i+1}^{I} C_{jI}\right]\sum_{k=I+1-i}^{I-1}\frac{2\sigma_k^2/\lambda_k^2}{\sum_{n=1}^{I-k} C_{nk}}\right\}$$

Notation:

$I = Total\ number\ of\ Loss\ Months\ analysed$

$C_{i,k} = Cumulative\ claims\ amount\ for\ Loss\ Month\ i\ and\ development\ month\ k$

$R_i = IBNR\ estimate\ for\ loss\ month\ i$

$R = Total\ IBNR$

$\lambda_k = Link\ ratio\ for\ development\ month\ k$

$IBNR = incurred\ but\ not\ reserved\ claim$

Appendix IV – Additional items of note

An effort was made to include in the projection known items that will have a material impact on future experience, however some items will have an unknown effect on the projection and so have not been adjusted for. Additionally, other items that may warrant an adjustment to the projection have an adjustment made, but material variations from those adjustments could affect the projection.

- The impact, if any, of full implementation of the program including penalties and interest and overpayment is unknown, and the projection does not include adjustments for these administrative changes
- The impact, if any, of the implementation of HB 2102, a bill requiring health care providers to provide health records, is unknown and the projection does not include adjustments related to potential impacts of this bill
- Although an assumption is made on the payment patterns of incurred claims and assessed premiums, material deviation from the payment pattern assumed could cause the account balance to be higher or lower than projected.

Appendix V - Key recommendations

Data

The Office of Actuarial Services should invest resources in building its data warehouse. Given the program growth and obligation to the public, it's essential to have a consistent, accurate and complete data source to capture all activities with potential financial impact. A single source of truth can provide better and faster insights to all parties, enabling transparency to the public and all stakeholders.

Premium rate

- Due to the current rate structure being based solely on prior experience, when there are any changes in experience from the previous year it takes time until the rates would reflect the difference in experience. In this annual report, Employment Security projects the premium rate to hit the legislative premium rate cap of 1.20% in CY 2027. If a

required rate is needed that exceeds 1.20%, truncating the rate with a cap could result in inadequate premium for the claims paid that year. To the extent losses are carried forward, the required premium rates in future years have the potential to grow steeply above what the cap would allow, introducing risk that the program's solvency would spiral to an unsustainable level. Removing the rate cap would reduce the possibility of inadequate rates in the future. In addition, a forward-looking rate method would adjust rates sooner for potential changes and minimize carried-forward losses to the extent possible.

- Program solvency standard: the program solvency standard should be used forward looking due to the substantial growth of the program. In addition, suggest stress testing if policy changes, or new coverages will have profound impact to the benefit payment.
- Premium exemption: the program should keep in mind the effective rate collected by the program is about 7% (CY 2024) lower due to the exemption to small employers with less than 50 employees. Including this information will be helpful when communicating annual rate changes.
- Employees with elective coverage continue to have claim utilization rates much higher than average. If further changes are considered similar to the TNC program where the population of employees with elective coverage is likely to increase, care should be taken to either allow reflection of planned changes in future rate developments or ensure that the program has adequate rates and reserves to absorb the change.

Benefit cross-matching

Certain types of income, if received at the same time as Paid Leave benefits, could be in conflict. For example, during FY 2024 around 2,500 claimants received $4.3M in leave benefits while receiving benefits from the UI program for the same weeks. There should be a systematic way to direct customers to the proper state or federal insurance program while applying for leave benefit and help avoid disqualification according to RCW 50A.15.100[26].

Premium audit

The program should enforce timely reporting and payment. Employment Security observed a material number of elective accounts missing quarterly premium payments or not submitting required wage reports.

[26] For more information on disqualification, see RCA 50A.15.100.