LEGISLATIVE REPORT

Actuarial Annual Report for Paid Family and Medical Leave

NOVEMBER 2025

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, 2025.

The 2026 calculated premium rate reflects an expected material increase from the previous year, up to 1.13% for 2026 from 0.92% in 2025. Historically, claims outpaced premiums, which resulted in an account deficit in 2023 and again in 2025. A $200 million cash injection in 2023 resolved the account deficit at that time. However, the current regulatory premium rate calculation method only considers prior period experience and not forward-looking costs so continued high claims growth will result in the rate taking potentially years to catch up.

Claims experience has continued to grow at double-digit rates, primarily driven by Care and Serious Medical claims, and is reflected in the material rate increases in 2025 and 2026. Rates calculated in 2027 and forward are projected to reach 1.20%, which is the maximum allowed premium rate in the statute[1]. This is related to high claims trends, as well as program changes.

The legislative maximum premium rate of 1.20% adds risk to solvency given that the projected adequate rate required for 2027 and later exceeds 1.20%. Imposing a legislative maximum rate amid insolvency risk constrains the financial mechanisms to maintain program financial soundness.

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.

As a change from previous reports, this report includes a range of potential actuarial rates using an actuarial rate method in the appendix as opposed to estimated actuarial rates alongside the current regulatory rate method. Due to the additional complexity and further refinement of projection and assumptions required, additional staffing for the Office of

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

Actuarial Services would be needed to move to a forward-looking actuarial method. More information around the actuarial rate method, how it would help to address the solvency risks inherent in the current regulatory rate method, and support for the need for additional staffing to support this endeavor, is included in the Premium Rate Methodologies section of Appendix II.

Account projections:

- Under the current formula, the Paid Leave account is projected to experience ongoing, periodic deficits through 2028, with a consistent deficit starting in 2029 into the future. This is due to rates lower than required to be solvent, and a continued increase in program benefit costs.
- The account is expected to be -$78 million by the end of premium collection for 2026, and -$62 million by the end of premium collection for 2027-both below the targeted reserve equivalent to three months of benefit payments and administrative costs. The program will continue to have periodic and, eventually, sustained deficits due to inadequate premium rates and higher costs. Because of the continued inadequate premiums, Employment Security projects a continued decline in the account balance, reaching -$992 million after 2029 premiums are collected.
- Moving to an actuarial rate-setting method, which sets rates based on forward-looking experience, would reduce the risk of inadequate rates due to increasing claim costs and future known program changes as those changes could be included in the rate. Please see Appendix II for additional detail on the difference in rate methods and a range of potential actuarial rate outcomes.

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, 2026-2029. The valuation is based on data current as of June 30, 2025.

The report contains four sections:

- Summary of results providing high-level program trends and a summary of premium rates.
- Evaluation of the program's financial condition (health) as of the end of fiscal year (FY) 2025 and discussion of key drivers.
- Actuarial review of the regulatory rate method while determining the premium rate level, and the projections of the program account balance (FY 2026-2029).
- 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.

The actuaries responsible for this report, Karissa Burgess, FSA and Eve Sheng, FCAS, are members of the American Academy of Actuaries and meet the qualification standards of these organizations for rendering the actuarial services contained within this report.

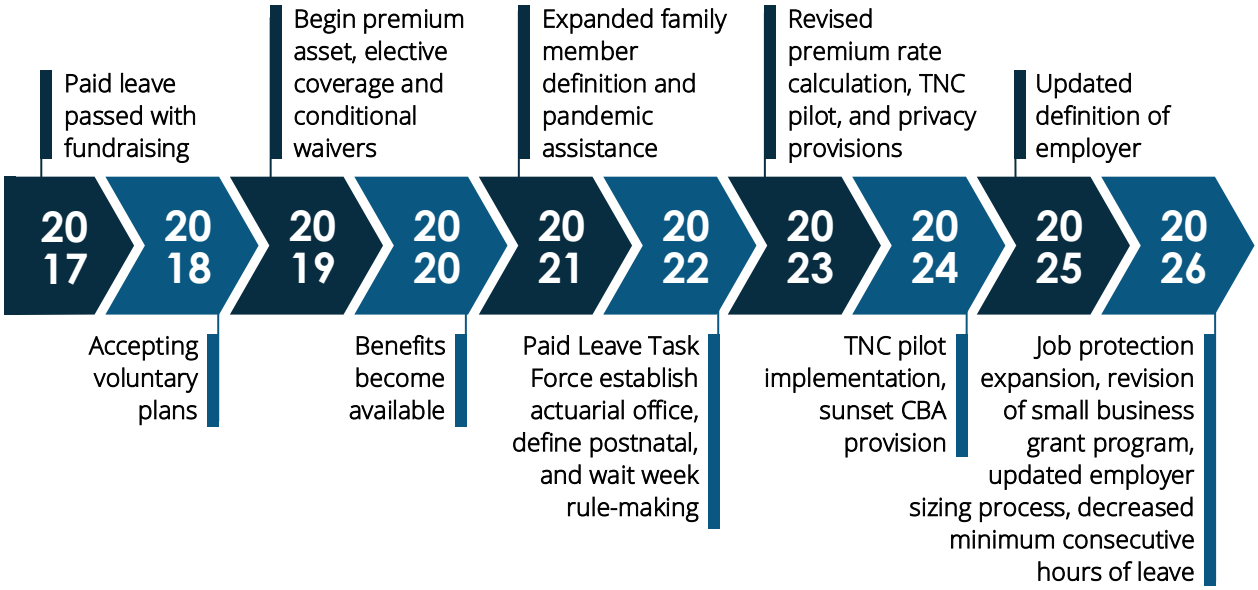
Background

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. Please note the job protection qualification standard will change starting in 2026 and phase in through 2028, as explained later in this section. Benefits are progressive, providing up to 90% of participants' weekly pay for each week of leave, and are portable across jobs. The weekly benefit payment calculation also considers the average weekly wage, which allows for increases in payments and payment maximums when the weekly wage increases[2]. Additional important detail around the average weekly wage is included in the Data and Assumptions section.

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.

[2] The average weekly wage in 2024 was $1,830, For more information, see Washington's average wage increase.

Figure 1: Paid Leave Legislative Changes



Additional historical details around legislative changes can be seen in the 2024 PFML Annual Actuarial Report [3]. Changes that have been implemented recently or that will occur during the projection period are included below.

- Second Substitute Senate Bill 5649[4] (2SSB 5649) included a provision in 2022 not requiring some collective bargaining agreements to be renegotiated to comply with the program. That provision expired Dec. 31, 2023[5]. The effect was an influx into the program of employees in collective bargaining agreements in 2024.
- Substitute House Bill 1570 (SHB 1570)[6] 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 runs through 2028[7].
- Engrossed Second Substitute House Bill 1213 (E2SHB 1213)[8] made several changes to the program, including expanded job protections to employees beginning January 1, 2026.

[3] For more information, see 2024 PFML Annual Actuarial Report.
[4] For more information, see Second Substitute Senate Bill 5649.
[5] For more information on the expired collective bargaining agreement provision, see RCW 50A.05.090.
[6] For more information, see Substitute House Bill 1570.
[7] For more information on the TNC pilot program, see RCW 46.72B.200.
[8] For more information, see Engrossed Second Substitute House Bill 1213.

- Job protection is expanded to those employed by employers with eight or more employees who have worked for their employer at least 180 days. Job protection changes are phased in by employer size starting in 2026 through 2028.
- Small business grants will have increased communication and awareness, as well as a streamlined attestation process for employers with fewer than 50 employees. Grants for employers with fewer than 50 employees also have increased value and are now set at $3,000 where previously they varied between $1,000 and $3,000. These changes are effective in January 2026.
- Determination of employer sizing for the program is now based on additional employer reporting of actual employee counts, as opposed to the count of employees in quarterly wage reports. This change has the potential to remove employees that left employment during the quarter and are not currently employed but would be in wage reporting. This could result in more employers being counted as small and eligible for the additional benefits of grant improvements and Paid Leave premium exemptions that apply to small employers. This change would affect employer sizing results in 2027.
- Decreases the minimum consecutive hours of leave from eight to four. This is not expected to result in material changes to program costs.

- Substitute Senate Bill 5191 (SSB 5191)[9] updated the definition of employer to include representatives for employers of dockworkers, effective July 27, 2025. This bill is not expected to materially affect program experience.

Summary of results

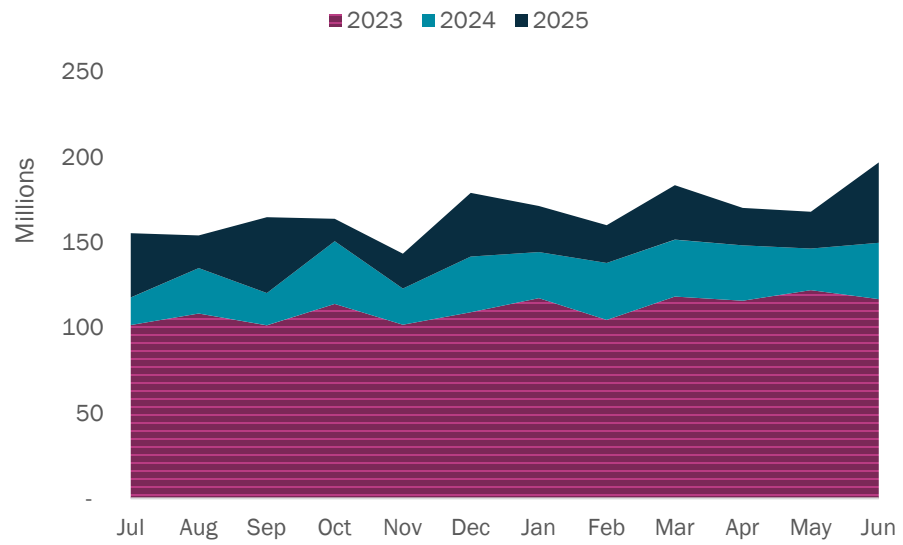
The Paid Leave program was implemented in 2019 and started receiving claims in 2020. The combined forces of the social dynamic shift through and after the pandemic, early program growth, and legislative changes caused program utilization to grow beyond expectations. The program has continued to grow at a high rate through the experience period ending in FY 2025.

The graph below shows the leave benefit payment for each month was higher than the same month of the previous two years. For example, payments from January 2023 were at $117 million, compared to $171 million from January 2025. At the same time, Employment Security

[9] For more information, see Substitute Senate Bill 5191.

continued to observe month-over-month claim volatility throughout the year as well as an upward trend for each fiscal year.

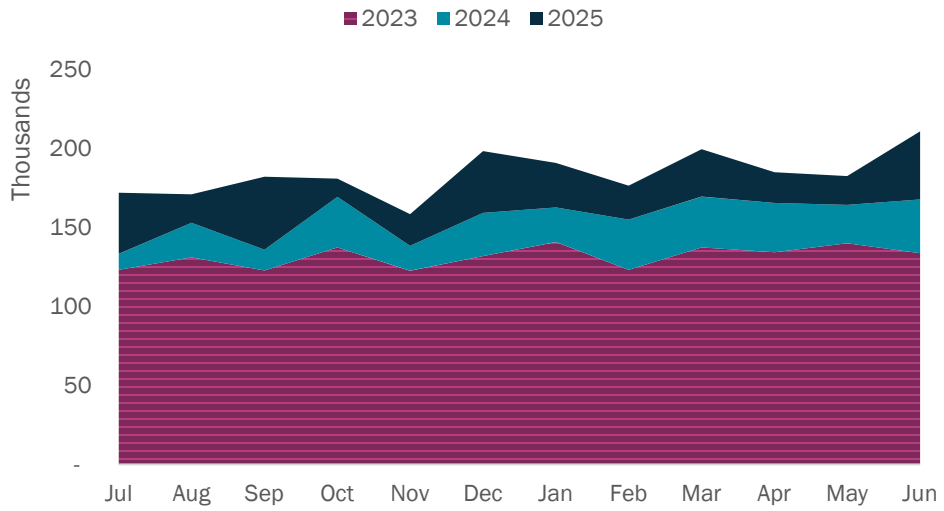
Figure 2: FY monthly benefit payment ($) by Fiscal Year



Source: WA Paid Leave administrative data, July 2022 – June 2025

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 141,000 in January 2023 and jumped to 191,000 in January 2025. Claims in FY 2025 continued to show some volatility and material growth from previous years. Similarly, the average weekly benefit amount increased from mid $800s in January 2023 to close to $900 in January 2025. The weekly benefit amount will continue to increase in future years as wages increase.

Figure 3: FY Monthly paid weekly claim count (in thousands) by Fiscal Year



Source: WA Paid Leave administrative data, July 2022 – June 2025

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 2021.

Figure 4: Paid Leave premium rate history

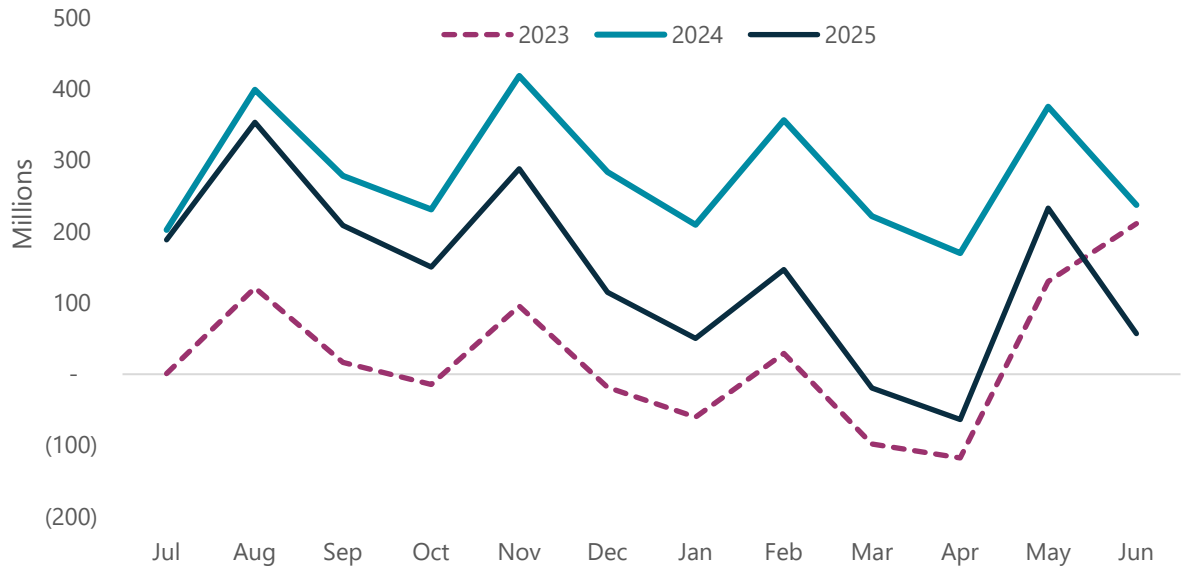
Calendar Year (CY)	Premium Rate
Jan 1, 2021 - Dec 31, 2021	0.40%
Jan 1, 2022 - Dec 31, 2022	0.60%
Jan 1, 2023 - Dec 31, 2023	0.80%
Jan 1, 2024 - Dec 31, 2024	0.74%
Jan 1, 2025 - Dec 31, 2025	0.92%

Source: WA Paid Leave administrative data, January 2021 – December 2025

Historically the collected premium has not matched the pace of the benefit payments. 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 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. This led to a rate decrease from 0.80% to 0.74% in 2024 while claims continued to increase.

A material increase in the rate occurred in 2025, where the rate increased from 0.74% to 0.92% but not to the level needed to be adequate for the claims incurred as well as recoup the account balance to an adequate level. Delaying the 2024 rate increase contributed to the material increases in 2025 and 2026. The 2024 rate decrease, as well as increases in claims, contributed to account deficits starting in 2025 and are projected to continue.

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



Source: WA Paid Leave administrative data, July 2022 – June 2025

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, wage trends and wage effects on benefit payments are expected to continue, while metrics like utilization rates could still see increased upward momentum due to continued volatility in certain claim types and the expansion of job protections under E2SHB 1213.

For the same "expected" scenario, the projected premium rates are the result of the premium rate formula established in RCW 50A.10.030[10].

[10] For more information, see Senate Bill 5286.

Figure 6: Projected premium rates

Calendar Year (CY) start date – end date	Premium Rate (Premium Rate Projection)	Change (Premium Rate Projection)
Jan 1, 2026 - Dec 31, 2026	1.13%	23%
Jan 1, 2027 - Dec 31, 2027	1.20%	6%
Jan 1, 2028 - Dec 31, 2028	1.20%	0%
Jan 1, 2029 - Dec 31, 2029	1.20%	0%

Source: WA Paid Leave FY25 projection, January 2026 - December 2029

*Estimated premium rate from the projected account balance as of August 30, 2025. Official premium will be published by/at the end of October 2025 including the actual account balance as of September 30, 2025.

Employment Security expected the 2024 and 2025 premiums rates to be inadequate to cover the claims experienced. The impact of the premium rate decrease in 2024 was 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 are also elevated as they capture the remainder of the effect of the inadequate 2024 and 2025 rates, as well as additional changes and trends that occurred during 2025. Premium rates for 2027 and later are truncated by the maximum set in RCW 50A.10.030 stating the total premium rate must not exceed 1.20%.

Moving to a forward-looking rate method based on actuarial principles would help to better match future premiums to expected expenses to mitigate instances of inadequate rates and avoidable larger fluctuations in the premium rate. Please see Appendix II for additional detail around the alternative method utilizing actuarial principles.

The table below shows the financial projections under the "expected" scenario.

Figure 7: Paid Leave financial projections

$ millions	FY 2026	FY 2027	FY 2028	FY 2029
(1) Premium Collection	$2,379	$2,898	$3,138	$3,274
(2) Leave Benefit Payment	$2,354	$2,710	$3,071	$3,506
(3) Small Business Grants	$5	$15	$26	$38
(4) Net Administrative Costs	$100	$88	$90	$95
(4b) Account balance = (4@Prior FY) + (1) – (2) – (3) – (4)	-$26	$60	$12	-$353

Source: WA Paid Leave FY25 projection, July 2025 – June 2029

Note: Numbers may not add up due to rounding.

Due to the inadequate rates in 2024 and 2025, it would be expected to take a few years for the account balance to rebound under the current rate method due to only considering past experience in the rate development, even without the presence of a legislative rate maximum. As can be seen in the table above, once the legislative maximum rate of 1.20% is reached the rate is not adequate to cover expenses and the account balance decreases. Decreases become steeper over time as expenses increase while the premiums rates do not.

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 with an expectation of how external and internal drivers of experience, such as those listed below, will influence future experience. However, changes to drivers of experience from what was expected in the projection could cause the future experience to deviate materially from the current 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 changes to the strength of the economy 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, organizational change, 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[11], prepared actuarial income statement, actuarial balance sheet[12] 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).
- 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.

[11] FY 2025 financial statements are prepared by the Financial Services Division as of September 25, 2025. Year-end capitalization entries, OPEB pension entries, and other small immaterial adjustments are not included in these financial statements. FY 2024 financial statements are also provided by the Financial Services Division on September 25, 2025.

[12] FY 2023 balance sheet was the first year adopting the actuarial claim payable. Since then, Employment Security booked claim payables in the balance sheet assuming same principle had been carried through.

The following table is a summarized actuarial income statement from fiscal year (FY) 2024 to current FY 2025.

Figure 8: Summary of income statement ($ million)

$ millions	FY 2024	FY 2025
(1) Total Revenue	$1,742	$1,986
(2a) Claims[12]	$1,712	$2,060
(2b) Administration expenses	$61	$84
(2) Total Expenditures	$1,773	$2,144
(3) Net Income (Loss) = (1) – (2)	-$31	-$158
(4) Financial Loss Ratio = (2a) / (1)	98.3%	103.7%
(5) Financial Combined Ratio = (2) / (1)	101.8%	107.9%

Note: Numbers may not add up due to rounding

Source: WA Paid Leave adjusted unaudited financial statements, July 2023 - June 2025

The program's financial income further deteriorated in 2025, resulting a net loss of $158 million – about $127 million higher than the loss recorded in 2024. The financial combined ratio reached 107.9%, exceeding 100%, primarily due to insufficient revenue to cover the total expenditures incurred during the same year. Comparing to 2024, revenue increased, largely driven by wage growth and a higher premium rate of 0.92% effective Jan. 1, 2025 (mid of FY 2025). As a result, total revenue rose by $244 million from $1,742 million in 2024. However, total expenditure increased by $371 million, outpacing revenue growth and ultimately leading to net loss of $158 million.

Figure 9 shows the impact from the program net income (loss) on its contingency reserve since 2024, and its contingency reserve position at the end of each fiscal year (2024-2025).

Figure 9: Summary of balance sheet ($ million)

	FY 2024	FY 2025
(1) Total Assets	$817	$729
(2) Total Liability	$423	$493
(2a) Claim payable[13]	$312	$358
(2b) Other liability	$111	$135**
Previous Contingency Reserve	$424	$393
Net Income (Loss) [14]	-$31	-$158
(3) Total Contingency Reserve=(1)-(2) [15]	$393	$236

Note: Numbers may not add up due to rounding.

Source: WA Paid Leave adjusted unaudited financial statements, July 2023 – June 2025

** There was an increase in unearned premium of about $26 million in (2b) Other liability in FY2025. This change is largely due to premium received without corresponding wage reports and there are ongoing efforts to collect the related wage reports and similar increase starting FY2024

Combined with Figure 8, the program's contingency reserve declined from $393 million at the end of 2024 to $236 million in 2025. The latest contingency reserve of $236 million is lower than the estimated lower bound contingency reserve (approximately $1,050 million) under National Association of Insurance Commissions (NAIC) for similar insurance risk. Any further reduction of the contingency reserve would jeopardize the program's solvency on a sustained basis.

Figure 10 presents the cashflow contribution by different activities from 2024 to 2025, as well as the ending cash and cash equivalents position for each fiscal year.

[13] Claim payable reflects the claims that have incurred but not reserved (IBNR).
[14] Net Income (Loss) is from Figure 8, item (3).
[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, 2025 ($ million)

	FY 2024	FY 2025
(1) Cash and cash equivalents at beginning of the year	$203	$230
(2) Net Cash Provided by Operating Activities	$23	-$193
(3) Investment of other Financing Activities	$4	-$1
(4) Net Increase (Decrease) in Cash and Cash Equivalents = (2) + (3)	$27	-$194
(5) Cash and cash equivalents at end of year = (1) + (4)	$230	$36

Note: Numbers may not add up due to rounding.

Source: WA Paid Leave adjusted unaudited financial statements, July 2023 - June 2025

The program incurred negative cash flow of $194 million in 2025, resulting in a decline in its cash position from $230 million at the beginning of the fiscal year to $36 million at the end of 2025. The depleted cash level indicates that program lacks sufficient funds to cover its expenditures for the coming month, prior to the receipt of premium payments due at the end of that month. In 2025, the program incurred negative cash from operating activities, shown in (2) Net Cash Provided by Operating Activities in Figure 10. Looking back at FY 2024, the (3) investment of other Financing Activities yielded a positive cash contribution of $4 million, driven by $13 million in investment income, partially offset by $9 million in outflow from other financing activities. In FY 2025, the program experienced a decline in cash balance, leading to lower investment income of $9 million, which was entirely offset by $10 million in other financing outflows and resulted in a slightly negative cash contribution of -$1 million.

Overall, the program's financial condition continued to weaken in 2025, with the cash position declining to a critically low level and income results reflecting a significant loss. As of the end of FY 2025, the contingency reserve has fallen below the equivalent of one-month of expenditures. The persistent financial pressure on the program indicates the challenge of implementing adequate premium rates matching the increasing expenditures. As of year-end of FY 2025, the program no longer maintains an adequate contingency reserve to support solvency under immediate adverse conditions.

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 continuous deficits to occur in the coming years. Conversely, lawmakers could consider shifting to an actuarial rate setting approach, which would improve account financial soundness.

Historical experience in detail

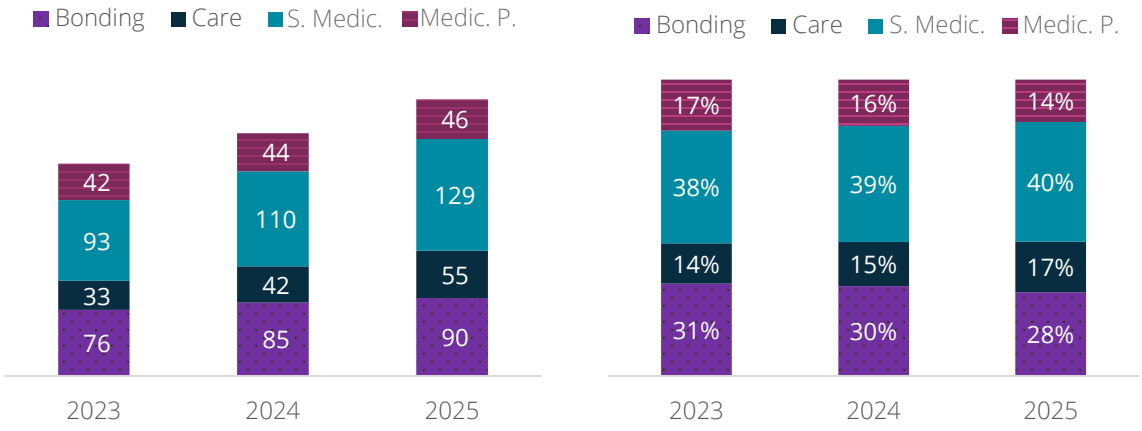
This section presents how different types of leave contributed to this upward trend over the past three years (2023-2025), then reviews the effect from each demographic group using the leave counts (or claim counts).

Historical experience by leave type

In Washington, there are four main leave types to account for different situations. Under Family Leave, there is "Bonding" leave and "Care" leave, while under Medical Leave, there is "Serious Medical" leave and "Medical Pregnancy" leave. There is also Military leave – which reflects around 0.02% of historical paid claims.

The following graph (left) shows submitted claim counts went up for the four major leave types from 2023 to 2025, but each went up at a different pace and caused the year-over-year shift in distribution (right). Ranked by count (left), Serious Medical is the most used, followed by Bonding. Care claims have continued to increase at a high rate and overcame Medical Pregnancy leave in 2025, becoming the third most utilized leave type.

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



Source: WA Paid Leave administrative data, July 2022 – June 2025

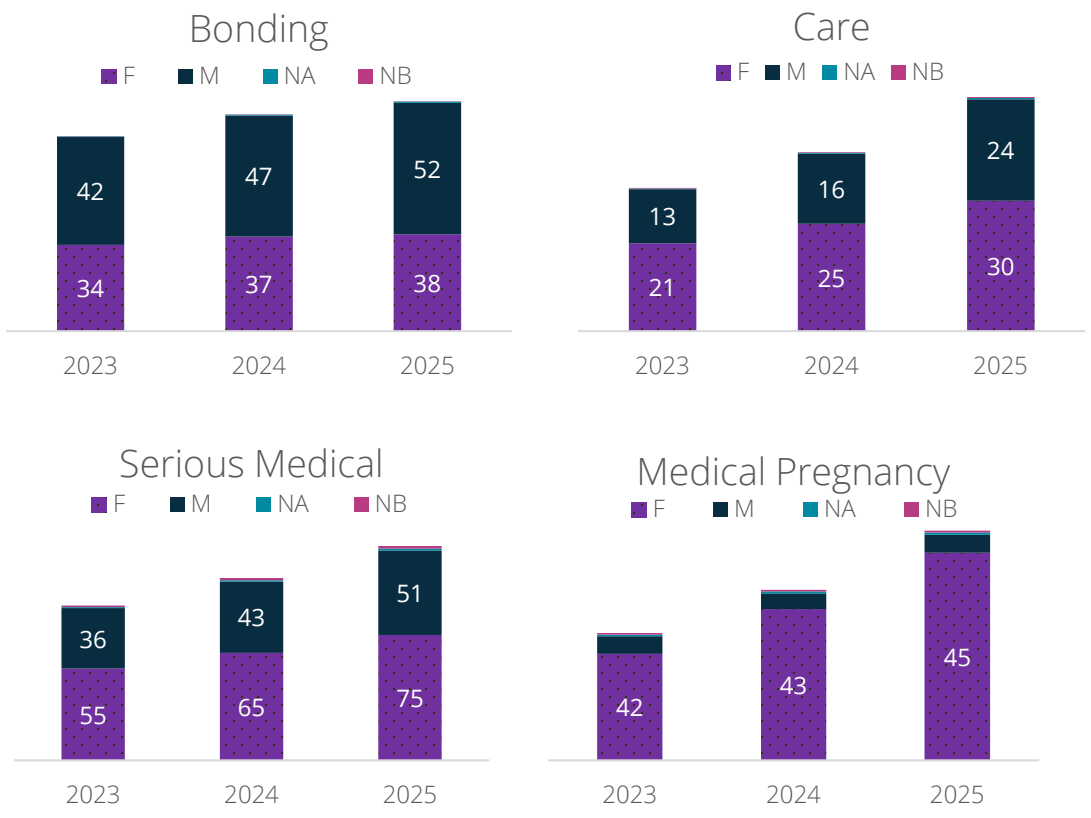
The leave share (right) split between Family (Bonding & Care) and Medical (Serious Medical & Medical Pregnancy) has not changed significantly. However, the leave shares within Medical and Family have changed from 2023 to 2025. In Medical Leave, Serious Medical continues to

grow in share while Medical Pregnancy has seen some contraction. Similarly in Family Leave, Care continues to grow in share while Bonding has seen some contraction.

Historical experience by demographics

The following is an examination of program usage by gender and type of employment from 2023 to 2025. 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. In the graphs below "F" indicates female, "M" indicates male, "NA" indicates that gender was not applicable or left blank, and "NB" indicates non-binary.

Figure 12: FY Historical claim counts (in thousands) by gender



Source: WA Paid Leave administrative data, July 2022 – June 2025

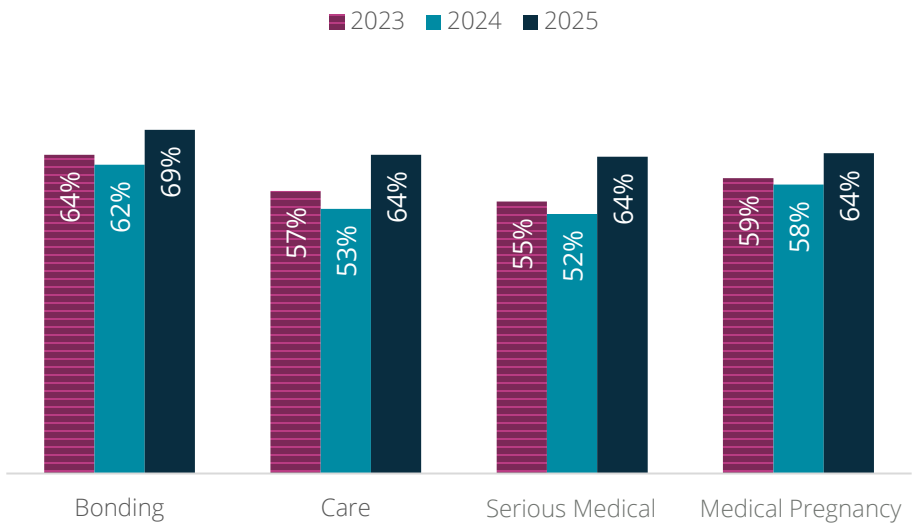
In Figure 12, for Family Leave (Bonding & Care), the number of Bonding claims (top left chart) submitted by males continues to surpass females. This shift is likely driven by a combination of

factors, such as females not extending state Paid Leave beyond the medical birth-related claim, lack of an employer provided paid paternity benefit, and an increasing share in household or childcare by males in the post pandemic era as examples. Within Care (top right chart), there does not appear to be a similar trend, although the share of males is increasing, females are still taking the leading role to care for a family member.

In the same graph, for Medical Leave (Serious Medical & Medical Pregnancy), the number of Serious Medical leave claims (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 Medical Pregnancy leave claims continue to be taken by females.

Meanwhile, Employment Security examined the leave mix between full time (39+ hours/week) and part time workers in 2023-2025. The shifts in leave share between full time and part time workers are consistent but show a small drop in 2024. Please note the large increase in 2025 is due to a change in reporting. Previously, full time employees that were paid hourly were identified as part time. Starting in April 2025, the identification options were expanded, and now full time but paid hourly is an option to select separately in the application. It is expected that 2026 will potentially show an even larger shift as the change will be fully represented in that data.

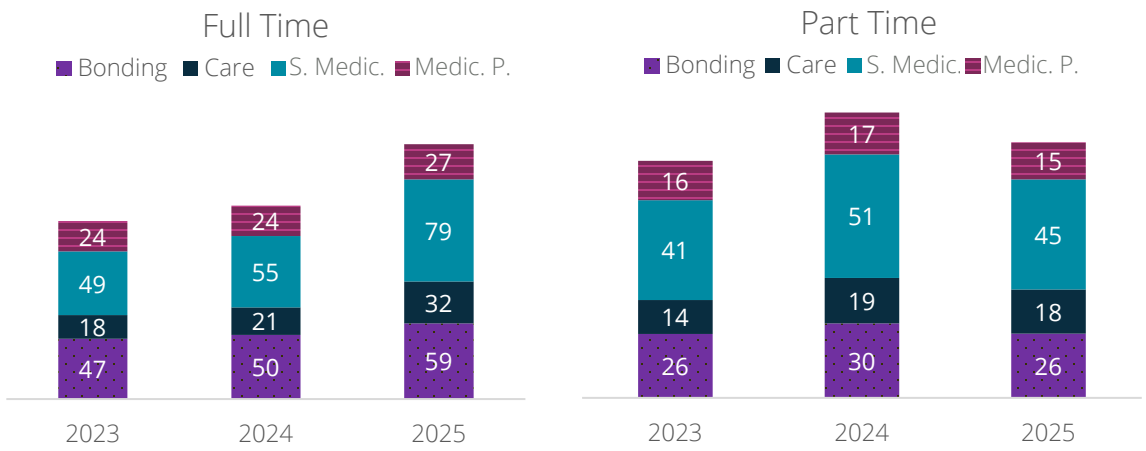
Figure 13: FY Leave share by full time workers.



Source: WA Paid Leave administrative data, July 2022 – June 2025

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 leave than part-time employees. There could be many factors driving the variances, with job security and disposable personal time possibly among them.

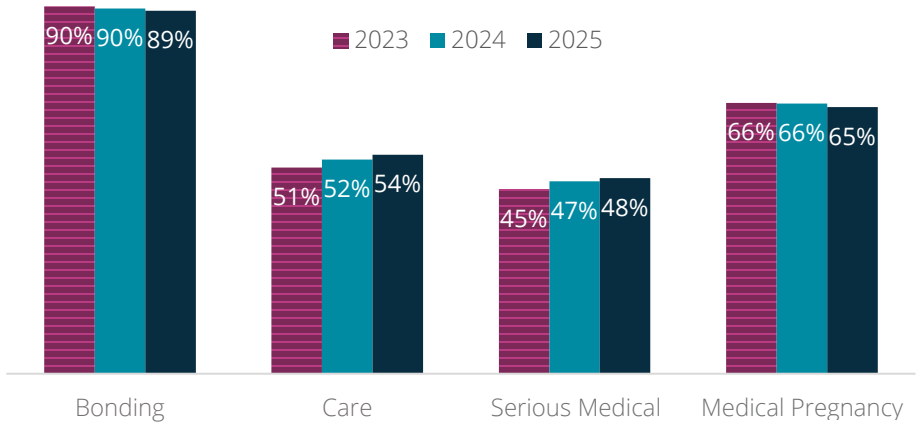
Figure 14: FY Historical claim counts (in thousands) by employment type



Source: WA Paid Leave administrative data, July 2022 – June 2025

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 15: Percentage of FY claim counts that were anticipated



Source: WA Paid Leave administrative data, July 2022 – June 2025

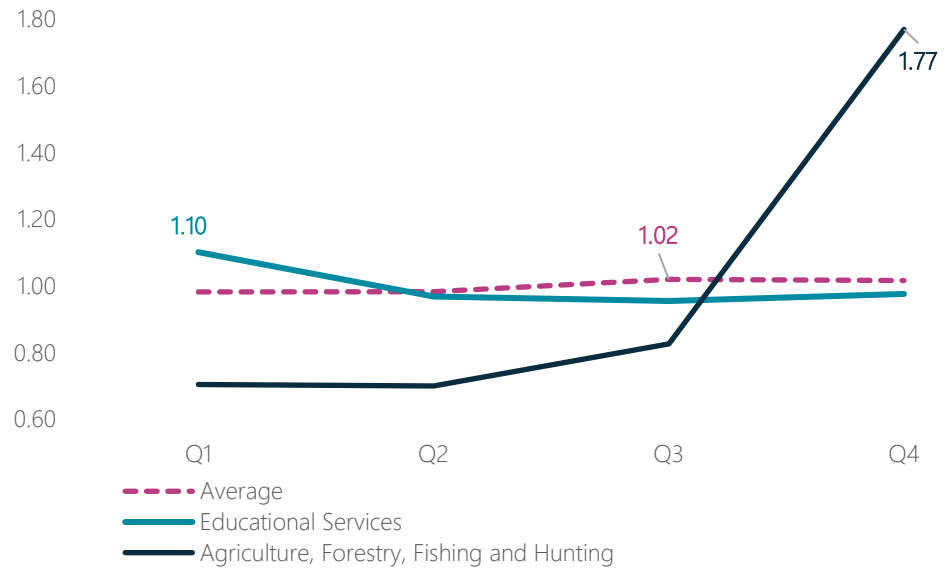
Historical experience by industry

The industry of claimants is related to the degree of claim submissions as well as claim utilization patterns throughout the year. Understanding how industry relates to utilization and utilization patterns can be beneficial in understanding how experience will develop over time as labor force changes between industries occur. The following is an examination of utilization rates and utilization patterns as they differ across industries. Please note there are other employment-related characteristics that are related to utilization rates and patterns besides industry, some of which could overlap with industry. Examples are job protection status and employment type, such as full time or part time, and how they relate to the degree of benefit utilization. Different industries may have differing amounts of their labor force with job protection or employment status, such as more or less full-time workers, and this could also affect utilization outside of the industry itself.

On average, claim submissions per benefit-eligible employee across the program are higher in the third and fourth quarter of the year. However, industry-specific claim submission behaviors can vary widely. While not all industries are tracked, below are two examples of industries based on their two-digit North American Industry Classification System (NAICs) code that have claim submission behaviors that vary from the average. The average claim utilization rate for that industry is reflected as 1.00, and the highest quarters are labelled to identify how much that quarter is higher than the average quarterly utilization for that industry. For example, in the case of Agriculture, Forestry, Fishing, and Hunting, the utilization rate in Q4 is 1.77 times the average quarterly utilization for the year for that industry.

Agriculture, Forestry, Fishing, and Hunting employees have materially fewer claim submissions per eligible employee in the beginning of the year and a large increase in the fourth quarter. Educational Services employees have the highest claim submission rate in the first quarter, with lower rates in later quarters.

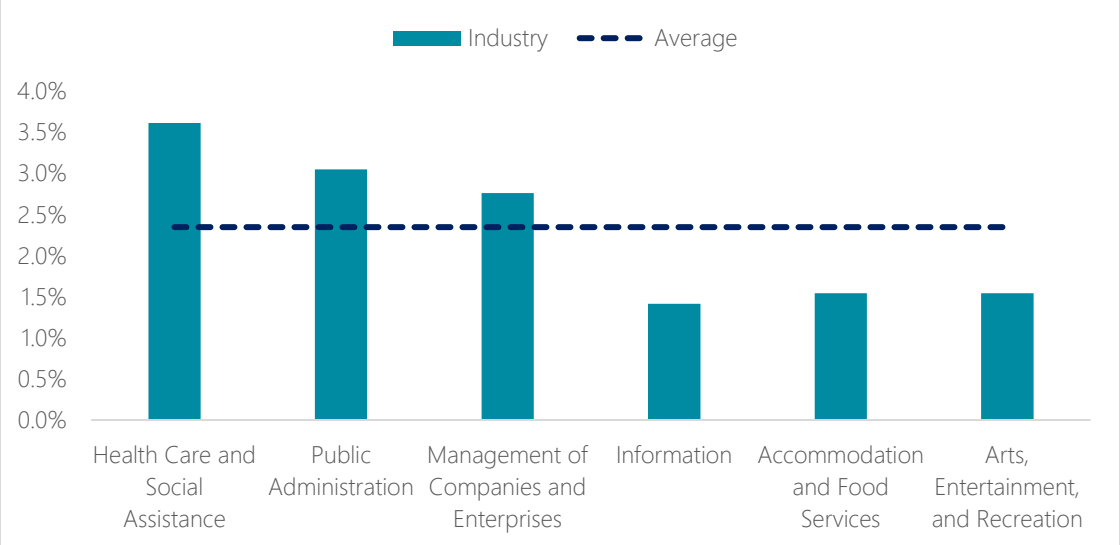
Figure 16: CY24 Seasonality pattern of utilization rate by industry



Source: WA Paid Leave administrative data, January 2024 – December 2024

Additionally, employees of different industries may utilize the program at different rates, with some industries having utilization rates below the overall program average and some having above average utilization rates. Below are a few examples of industries with claim utilization rates that differ from the average. The utilization rates are the average quarterly utilization rates for 2024 per benefit eligible employee.

Figure 17: 2024 average quarterly utilization rate per benefit-eligible employee by industry



Source: WA Paid Leave administrative data, January 2024 – December 2024

Actuarial review of rate

The Paid Leave program premium rate is implemented on a calendar year basis (Jan. 1 – Dec. 31). Premium rates are based on calculations outlined in RCW 50A.10.030[16]. In this section, the projected program performance from rate period 2026 to 2029 is summarized. Then the report elaborates on the implications for the Paid Leave program's financial condition. Lastly, the report expands on the assumptions and methodology supporting this actuarial review.

The following terms are included in this section:

- Projected rate period – calendar and leave year (CY-LY) 2026 – 2029.
- Covered employees (millions) – projection of employees during the projected period accounts for labor force participation and employment growth. These are employees for whom the premiums are assessed.
- Benefit eligible employees (millions) – employees that are eligible to utilize benefits. Generally, those that have worked 820 hours in the first four of the most recent five completed quarters, or the four most recent completed quarters.
- Taxable wages ($ millions) – projection of taxable wages accounts for both wage and employment growth.
- Premium rate – projected rates as a percentage of the taxable wages during the projected rate period.
- Assessed premium ($ millions) – projection of premiums assessed based on the wages earned during the projected period and expected to be paid by the employees and employers or elective policy holders.
- Benefit Mix ($ millions) – projection of premium related to voluntary plans, where the employer has a voluntary plan for either Family or Medical coverage and premiums would not be due to the program for these coverages. These premiums are removed from the assessed premium calculation.
- Premium exemption ($ millions) – projection of assessed premiums exempt from small employers.
- Ultimate leave benefit ($ millions) – projection is made on a leave year basis and reflects the ultimate payments for the leave claims starting in the projected rate period.
- Small Business Grants ($ millions) – projection of small business grants, including the changes outlined in E2SHB 1213.

[16] For more information, see Senate Bill 5286.

- Administrative expenditures ($ millions) – projection based on Employment Security's budget and majority of the budget dedicated to staffing cost.
- Interest income ($ millions) – interest income based on the net interest rate forecast from Washington State Treasurer's Office as of June 2025. Meanwhile, we assume no interest expenses will be incurred while operating under a deficit.
- 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 program solvency from unexpected events.
- Leave benefit ratio – the projected ratio of leave expenditures 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 non-leave 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 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 is based on actuarial assumptions that drive the future leave benefit experience. 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.

Because of the rate decrease in 2024, Employment Security expects there will be larger increases in 2025 and 2026 to address higher expenditures and account solvency. However, in 2027 the rate is expected to meet the legislative maximum of 1.20% and as expenses again become higher than premiums the account balance begins to decrease in 2028.

The following table summarizes the pricing income (loss) for the premium rate. 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 premium rates

Amount ($ million)	CY-LY 2026	CY-LY 2027	CY-LY 2028	CY-LY 2029
(1) Premium rates	1.13%	1.20%	1.20%	1.20%
(2) Covered Employees	3.53	3.55	3.57	3.60
(3) Taxable Wages	$269,761	$279,626	$291,081	$303,037
(4) Premium Exemption	-$217	-$246	-$251	-$255
(5) Benefit Mix	-$5	-$5	-$5	-$6
(6) Assessed Premium (1) x (3) + (4) + (5)	$2,827	$3,105	$3,237	$3,376
(7) Leave Expenditure	$2,603	$2,939	$3,352	$3,830
(8) Small Business Grants	$13	$20	$32	$44
(9) Administrative Expenses	$97	$92	$95	$97
(10) Interest Income	$2	$3	$2	$0
(11) Pricing Income (Loss) = (6) – (7) – (8) - (9) +(10)	$115	$58	-$240	-$596
(12) Leave benefit Ratio = (7) / (6)	92%	95%	104%	113%
(13) Expense Ratio =[(8) + (9) - (10)] / (6)	4%	4%	4%	4%
(14) Combined Ratio = (11) + (12)	96%	98%	107%	118%

Note: Numbers may not add up due to rounding

Source: WA Paid Leave FY25 projection, January 2026 – December 2029

At the end of the projected rate period, the projection of premium rates will decrease the program cash position by $663 million. At the same time, the program will exempt smaller employers with assessed premium amounts of about $968 million over the four years. Additionally, under E2SHB 1213, small business grants are projected to be utilized more often than in the past, so are called out separately in the above figure.

The combined ratio is projected to be greater than 100% in 2028 and 2029. A ratio above 100% reflects that the assessed premiums are expected to not be adequate to cover total incurred expenses. The combined ratio is less than 100% in 2026 and 2027 due to rate increases. However, once the rate reaches the legislative maximum of 1.20%, this causes the combined ratio to increase above 100% in later years.

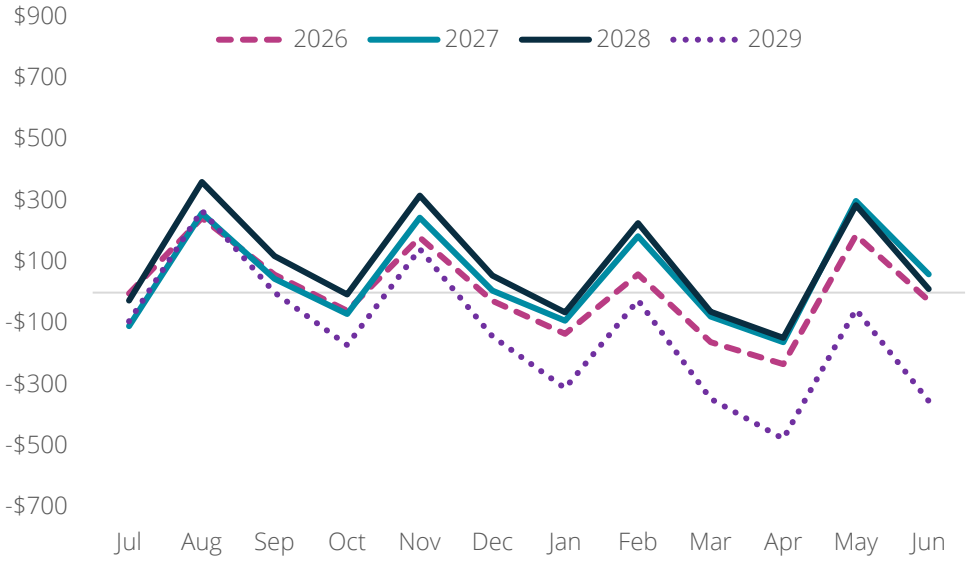
Based on the projection at the CY-LY basis, Employment Security uses a cash flow model to project the account balance for the next 48 months, four fiscal years (2026-2029). Figure 19 illustrates the program cash balance (or account balance). The account is projected to experience ongoing, periodic deficits through 2028, with a consistent deficit starting in 2029 into the future.

Reflected in the account balance projection in Figure 19:

- The lowest account balance projected is a deficit of $477 million in April 2029 and the maximum account projected is a balance of $361 million in August 2027.
- The ending account balance in June 2029 is projected to be -$353 million.

After the 2029 premium is collected in early 2030, the account balance is projected to be -$992 million, the equivalent of -3.6 months of the regulatory reserve target for that year.

Figure 19: FY Monthly account balance ($) projection



Source: WA Paid Leave FY25 projection, July 2025 – June 2029

Considerations when reviewing the monthly account balance in the graphs above:

- The account balance can vary widely on a month-to-month basis due to premium payments being due quarterly, while claims are paid throughout the year and not limited to quarterly payments.
- While the target reserve is for the account balance to equal the equivalent amount of three months of expenses, the balance can vary by greater than the equivalent of one month of reserve on a month-to-month basis due to premium payment patterns.
- The dollar amount equivalent of one month of expenses used for the reserve target is currently based on prior fiscal year experience and recalculated annually as of September 30.

Data and assumptions

Program changes

There are several program changes that affect the recent experience period and the projection. These changes are implicitly included in the data and assumption changes discussed in this section. Below is an overview of material recent or upcoming changes and how they affect the data and projection.

- 2SSB 5649[17]included a provision in 2022 not requiring some collective bargaining agreements to be renegotiated to comply with the program. This provision expired Dec. 31, 2023[18]. The effect was an influx into the program of employees in collective bargaining agreements in 2024 and into the future.
- SHB 1570[19] created a pilot focusing on transportation network companies (TNC). The pilot began July 1, 2024, and extends through 2028[20]. So far, the pilot has increased the number of elective employees in the program and is projected to continue to increase them over time.
- E2SHB 1213[21] made several changes to the program, including expanded job protections to employees beginning January 1, 2026.

[17] For more information, see Second Substitute Senate Bill 5649.
[18] For more information on the expired collective bargaining agreement provision, see RCW 50A.05.090.
[19] For more information, see Substitute House Bill 1570.
[20] For more information on the TNC pilot program, see RCW 46.72B.200.
[21] For more information, see Engrossed Second Substitute House Bill 1213.

- Job protection changes are phased in by employer size starting in 2026 through 2028. This is projected to increase utilization rates over time as those who were not job protected had materially lower utilization rates in the past than those who were job protected, eventually normalizing to a similar rate for most employees.
- Material improvements to the small business grant program are projected to materially increase grant utilization and cost over time.
- Changes to how employers report employee counts for employer sizing will likely result in more employers counted as small, with fewer than 50 employees, who will be eligible for employer premium exemptions and the grant expansions.

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 2.2% growth over two years: 1.9% between Q2 2023 and Q2 2024 and 0.3% annual growth between Q2 2024 and Q2 2025. 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 2024 of 1%, and lower than the 2025 trend of 0.5%.
- 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 around 10.5% increase over two years: around 6.5% annual increase between Q2 2023 and Q2 2024 and around 3.7% annual increase between Q2 2024 and Q2 2025.

Figure 21: Covered employees and wage data, in thousands

Year Quarter	Covered Employees	Family: Avg Annual Taxable Wage	Medical: Avg Annual Taxable Wage
20223	3,505	$62.8	$62.7
20224	3,417	$57.0	$56.9
20231	3,356	$77.4	$77.2
20232	3,461	$70.3	$70.2
20233	3,530	$64.1	$64.1
20234	3,468	$60.1	$60.1
20241	3,429	$81.2	$81.1
20242	3,526	$74.9	$74.8
20243	3,532	$66.5	$66.4
20244	3,528	$62.9	$62.9
20251*	3,446	$84.2	$84.0
20252*	3,535	$77.6	$77.5

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

Source: WA Paid Leave adjusted administrative data, July 2022 – June 2025

- **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 2025" from the state's Economic and Revenue Forecast Council (ERFC)[22], and the latest state population forecast "November 2024" from the Forecast and Research Division, Office of Financial Management[23] are considered. The table below summarizes the growth rates:

[22] Washington State Economic Review Forecast, June 2025; Vol. LVII, No. 2
[23] State of Washington Forecast of the State Population, November 2024 Forecast

Figure 22: Washington state economic and revenue projections, June 2025, State population forecast, November 2024

Year	Employment Growth	Wage & Salary Disbursements Growth	Consumer Price Index Growth	Population 22-67 Growth
2025	0.5%	1.5%	2.9%	0.9%
2026	0.4%	1.6%	2.7%	0.8%
2027	0.6%	2.8%	2.1%	0.7%
2028	0.9%	3.5%	2.0%	0.0%
2029	0.9%	3.2%	2.0%	-0.1%

Source: Washington State Economic and Revenue Forecast, June 2025; Washington State population forecast, November 2024; January 2026 – December 2029

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
2026	0.3%	4.1%
2027	0.5%	3.1%
2028	0.6%	3.5%
2029	0.6%	3.5%

Source: WA Paid Leave FY25 projection, January 2026 – December 2029

Leave benefit

The ultimate leave benefit is determined by how often eligible employees use the program, the length of leave taken, and the weekly benefit payment amounts. Benefit eligible employees are generally those that worked at least 820 hours in either the first four quarters of the previous five, or the most recently completed four quarters.

Generally, 2025 claims by benefit and employer type are used as a starting point for the projection. These claims are adjusted by claim trends, seasonality when appropriate, 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 initial filed claims will be denied after review. 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. While UR trends would otherwise be projected to grow at a slower pace later into the projection period, the expanded job protections included in E2SHB 1213 will likely contribute to continued growth for the near future.

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 UR	Family Approval%	Family Approved UR	Medical UR	Medical Approval%	Medical Approved UR
20223	9.0	89%	8.0	11.4	83%	9.4
20224	9.1	90%	8.2	10.9	83%	9.0
20231	9.7	89%	8.6	12.1	83%	10.0
20232	9.7	90%	8.7	11.8	84%	9.9
20233	9.9	90%	8.9	11.9	84%	10.0
20234	10.4	90%	9.4	12.1	85%	10.2
20241 (E)	11.0	90%	9.9	13.4	85%	11.4
20242 (E)	10.8	91%	9.8	13.5	85%	11.5
20243 (E)	11.4	91%	10.3	13.9	85%	11.9
20244 (E)	11.7	90%	10.5	13.4	86%	11.5
20251 (E)	12.3	89%	11.0	14.9	85%	12.6
20252 (E)	12.2	89%	10.9	15.4	84%	13.0

Note: (E) indicates rates estimates based on the reserve analysis and follow claims reserving manual[24].
Source: WA Paid Leave adjusted administrative data, July 2022 – June 2025

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

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 the 2026+ UR trend to continue to be slightly higher as programmatic changes around E2SHB 1213 are implemented and because of the continued volatility in certain claim types. Although projected UR trend rates are higher than would be projected for a mature program with no programmatic changes, the trend rates still reflect improvement over historical years.

The growth in recent historical approval rates has decreased and have become largely stable.

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

Projected Period	Family UR	Family Approval%	Medical UR	Medical Approval%
2026	12.6%	-0.2%	12.5%	0.3%
2027	8.6%	-0.3%	9.0%	0.0%
2028	9.7%	-0.3%	9.7%	0.0%
2029	10.0%	-0.3%	9.8%	0.0%

Source: WA Paid Leave FY25 projection, January 2026 – December 2029

Employment Security calculates the projected approved UR on a quarterly basis, then computes the projection of approved leave counts 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)[25] and the wage of the claimants during the qualification period, as well as the average weekly wage in Washington. The longer the leave duration or the more the claimants earned in the qualifying period, the higher the cost of the leave benefit. The average Washington weekly wage affects the benefit maximum, which is set at 90% of the Washington weekly wage, as well as the benefit calculation when wages are below the maximum.

The average weekly Washington wage used in benefit payment calculations is the same average wage used in the Unemployment Insurance program, which will include employers

[25] 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, which could include partial weeks.

who have a voluntary Paid Leave program and whose employees are not covered under the state program. The average weekly wage including these voluntary employers tends to be higher than the average weekly wage excluding these employers. In addition, premiums are only charged against the taxable wage base while the average annual Washington wage utilized in benefit calculations is not limited to the taxable wage base. The result is benefit payments are calculated off a higher average wage and a slightly different population than the average wage to which Paid Leave premiums would be applied. For example, the average annual taxable wage for those who were covered by the Paid Leave program in 2024 was $71,309. The average annual Washington wage that is included in the 2024 benefit calculation on a weekly basis is the 2022 average of $84,167. The 2024 average annual Washington wage was $95,160.

The ultimate benefit per Family Leave claim was around $6,700 three years ago; it is now closer to $8,000. A similar increase was observed for Medical Leave claims, which went from an average cost of about $6,100 to $7,100. 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 eight weeks and Medical Leave longer than seven weeks.

Figure 26: Historical ultimate leave benefit per claim

Leave Quarter	Family Weekly Benefit ($)	Family Duration (Weeks)	Family Benefit per Claim ($)	Medical Weekly Benefit ($)	Medical Duration (Weeks)	Medical Benefit per Claim ($)
20223	$827	8.14	$6,730	$826	7.43	$6,134
20224	$826	8.08	$6,679	$833	7.34	$6,112
20231	$856	8.24	$7,056	$860	7.46	$6,420
20232	$882	8.22	$7,247	$878	7.38	$6,481
20233	$886	8.32	$7,367	$882	7.43	$6,556
20234	$880	8.50	$7,482	$891	7.43	$6,617
20241 (E)	$881	8.60	$7,570	$881	7.62	$6,712
20242 (E)	$897	8.46	$7,589	$898	7.49	$6,727
20243 (E)	$905	8.48	$7,675	$905	7.53	$6,816
20244 (E)	$885	8.71	$7,708	$906	7.46	$6,759
20251 (E)	$908	8.55	$7,769	$927	7.51	$6,956
20252 (E)	$924	8.65	$7,993	$937	7.53	$7,057

Note: (E) indicates rates are estimates based on reserve analysis and follow claims reserving manual[26].

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

Source: WA Paid Leave adjusted administrative data, July 2022 – June 2025

The projected leave benefit per claim is mainly based on wage growth with a seasonality adjustment, and the leave duration will change slightly as the mix of leave and employer types change over time. For example, Bonding claims tend to have a longer duration and be spread over more weeks than other leave types. As the amount of Bonding claims as a proportion of the total changes over time, this would affect the overall average duration of claims.

Figure 27: Projected CY change for leave benefit per claim

Year	Family Weekly Benefit	Family Duration	Medical Weekly Benefit	Medical Duration
2026	2.9%	-0.2%	3.6%	0.2%
2027	3.1%	-0.3%	3.7%	0.1%
2028	3.1%	-0.3%	3.8%	0.1%
2029	3.1%	-0.4%	3.8%	0.1%

Source: WA Paid Leave FY25 projection, January 2026 – December 2029

Utilization rate by employer type

Utilization rates differ materially between the type of employer. Small employers with fewer 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. Additionally, before the changes of E2SHB 1213, employees of small employers did not have job protection if they chose to take leave which could also 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 or avoid enrolling otherwise. This causes the utilization rate to be extremely high, an average > 0.5 claim submitted per employee per year prior to the TNC pilot, when comparing claims submitted by elective employees to the estimated benefit eligible elective employees. The TNC Pilot has some experience partially reflected in the 2025 elective employee utilization rate. These employees are becoming newly eligible to the program, largely in the second half of 2025, and in preliminary data have utilization rates above the program average but below the average elective employee utilization. Due to the initial utilization rates of TNC Pilot employees being lower than non-TNC elective employees, there is a slight decrease in the 2025 utilization

rates shown below for 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.

In the table below, the large growth in 2025 elective employees is due to the TNC pilot. These employees are considered elective because enrollment is voluntary, but their paid premiums are reimbursed by their TNC employer. Additionally, the lower utilization rate starting in 2025 is related to these employees who are becoming newly eligible for benefits diluting the current utilization rate.

Figure 28: Benefit-eligible employees and utilization rates by employer type

Category (by employer type)	2023	2024	2025(E)
Eligible Employees (in thousands) (Small)	858	854	851
Utilization Rate/1000 (Small)	62.6	67.8	72.2
Eligible Employees (in thousands) (Large)	2,117	2,196	2,221
Utilization Rate/1000 (Large)	96.9	110.8	126.1
Eligible Employees (in thousands) (Elective)	1	2	5
Utilization Rate/1000 (Elective)	510	512.4	424.2

Note: A small number of employees have multiple sources of employment. These employees and claims are allocated to employment type based on wages by employment type during the qualification period.

Source: WA Paid Leave adjusted administrative data and FY25 projection, January 2023 – December 2025

Applying the projected trend to the FY25 cost per claim, Employment Security calculates the projected leave benefit per claim including seasonal adjustments along with other projection factors, such as for programmatic changes, as appropriate. The projected leave benefits are the product of the projected leave benefit per claim and the projected approved leave count.

Small business grants

Under E2SHB 1213 the Paid Leave small business grant program is changing materially. Previously, the program provided a grant to employers with fewer than 150 employees for employees that take leave, up to ten applications per year. The grant amount has previously been either $1,000 or $3,000 in cases where the employer had to hire a temporary employee to replace a worker. The grant program has largely had minimal participation in the past, potentially due to lack of awareness and perceived return on investment. With the update to the grant program, it is projected that utilization of grants will materially increase over time as awareness of the program increases, the value of grants increases, and it becomes easier to apply.

Under E2SHB 1213 employers with fewer than 50 employees will no longer be required to submit documentation to apply for a grant other than an attestation, the grant is increased to $3,000 in all instances, limited to ten received each year, and communications advising eligibility for the grants have increased to bring more awareness to the grant. Due to these changes, we project material increases in the paid grants for this group.

Grants for employers with 50-150 employees will largely remain the same but this group will still benefit from increased communications around the grant program. Due to increased awareness, an increase in utilization was projected for this group but not as steep as the under 50 group with more changes.

Figure 29: Projected CY grants and total grant cost, in thousands

Category (by employer size)	2026	2027	2028	2029
Grant count (Employers < 50 Employees)	3.4	5.7	9.2	13.1
Total Grant Cost (Employers < 50 Employees)	$10,082	$17,205	$27,668	$39,291
Grant count (Employers 50 - 150 Employees)	1.2	1.5	1.8	2.2
Total Grant Cost (Employers 50 - 150 Employees)	$2,671	$3,244	$4,078	$4,981

Source: WA Paid Leave FY25 projection, January 2026 – December 2029

Administrative expenses

Employment Security projected budgeted general expenses for the FY26-27 biennium and assumes a flat 3% increase in future years. The assumption is based on the following:

- Staffing costs make up most of the program expenses.
- Generally, operational expenses are likely to grow with cost-of-living adjustments and program expansion.

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).

Employers submit required wage reports to Employment Security on a quartertly basis; these reports are remitted in the month following the end of the quarter. Reporting months are April, July, October, and January. 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. While employers report total gross wages for employees, premiums are only assessed on wages up to the social security wage cap[27].

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 fewer than 50 employees) are exempt from paying

[27] Employers report total gross wages for employees; however, premiums are only assessed on wages up to the social security wage cap. This is $176,100 in 2025. Annual social security wage caps are produced by the Social Security Administration and each year's wage cap can be found here.

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 the 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 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 captures the data related to the claims being filed, such as the submitted date and the leave start date, 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[28]. 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.

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

The actuarial analysis relied primarily on the claims reported information as of evaluation 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

Medical

- Serious Medical Condition (Serious Medical) Leave
- Pregnancy & Childbirth Recovery (Medical Pregnancy) Leave

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 2025) used in our analysis against unaudited financial statements with claim payments and premiums 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

Overview of rate methodologies

This section will review the current premium rate methodology, the risks associated with it, and the alternative actuarial rate method that addresses much of the risks. The end of this section will show the current rate method formula as well as an illustration of a representative actuarial rate method.

The current premium rate methodology has several drawbacks due to lack of flexibility and its focus on prior experience only. In practice, this has resulted in rates that are often inadequate, causing solvency issues as well as an inability to build a three-month targeted reserve.

- The current rate formula is based on the prior fiscal years' experience only. This doesn't allow for adjustments for future experience or program changes that could occur and increases the risk of deficits, as well as creates a lag from when insolvency occurs to when the rate will change.
    - Relying on the previous fiscal year experience only is also a short-term view which introduces volatility compared to considering years of program experience when developing the projection.
- The current rate formula does not have flexibility to address solvency concerns like when a deficit is imminent, or the reserve is too low.
- The current rate formula is capped at the legislative maximum of 1.20% which will likely cause long-term solvency issues without material changes to the program and benefits.
- The resulting rates tend to be more volatile due to being based on prior experience and the current rate method doesn't have the flexibility to phase-in changes to lower volatility.

Conversely, the actuarial rate method addresses much of these concerns.

- The actuarial method is based on future projected experience so minimizes the risk that premiums will not be adequate to cover future period costs. The future rate would include all projected experience and known adjustments for programmatic changes.

    - The method is flexible to address solvency concerns and build a reserve at a consistent targeted pace.
- Because the rate is already based on the future projection, the rate will be less volatile than a rate that is based on prior experience only. The risk that the future will not match the projection using the actuarial rate method is lower than the risk that the future doesn't match the past using the current rate method, given this program still has large changes year over year in claim utilization and program changes.
- The actuarial rate method is more complex but allows the rate to be based on a projection that is more accurate than relying on previous period data, which includes adjustments for items like programmatic changes, or an economic downturn that early indicators like decreases in eligible employees might point to during the projection period.
    - Due to the additional complexity and refinement required, additional staffing for the Office of Actuarial Services would be needed.

Example actuarial rate results

This section includes a range of the potential actuarial rates. These rates are developed using an iteration of the formula described at the end of this section applied to the experience in this report, under a range of potential program experience variations. These ranges assume:

- The program's current three-month reserve level, but on a forward-looking basis, is assumed to be built by the end of the Q1 2029 in the projection period; however, additional analysis should be completed to inform the ideal reserve level. Building an appropriate forward-looking reserve level designed to mitigate the risk of future insolvency will depend on the defined risk tolerance. A lower tolerance for risk requires a higher reserve, and a higher tolerance for risk needs a lower reserve. Considering the program's scale and maturity, a three-month reserve is considered the minimum threshold, while a twelve-month reserve may represent the upper boundary for a socially oriented program with limited duration.

- Rates adequate to cover projected expenses during the rate year, appropriately rating for program changes and other changes in future experience.

The results of the actuarial rates are adequate premiums for the projection years, alleviating the continuous short-term deficits and resulting in a more stable account balance. The actuarial rate method also has the flexibility to spread building the reserve over multiple years. Building an appropriate reserve level throughout the projection years helps mitigate solvency

risks from unexpected shocks, eases rate pressure through investment income, and manages rate fluctuations and the account balance.

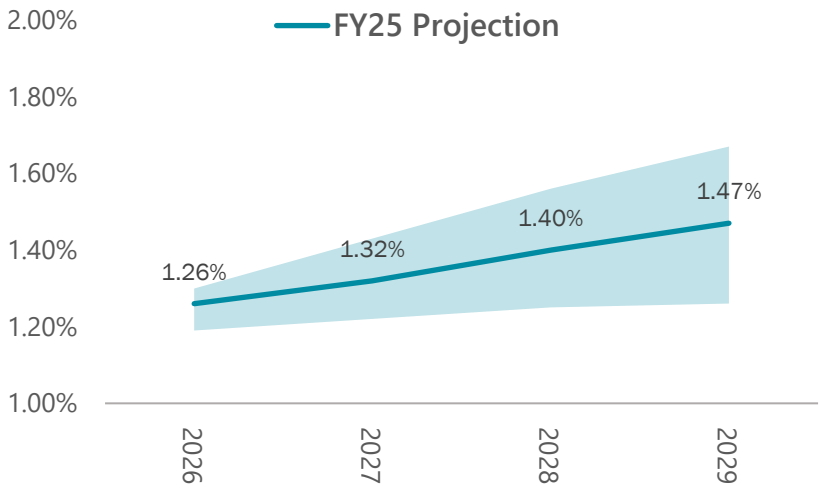
The rates presented below are grounded in actuarial ratemaking principles with simplification made to reflect current staffing constraints. Developing sound actuarial rates for a defined projection period is a highly complex and resource-intensive process. It involves, but is not limited to:

- experience analysis to capture program exposures to behaviors, economics and program changes,
- trend forecasting at segment levels to reflect distribution shifts over time, and
- assumption setting and iterative modeling.

Given the depth and breadth of these tasks, additional staffing is essential to maintain quality, meet deadlines, and support ongoing refinement.

Figure 30 includes a range of outcomes. The middle line reflects the actuarial rates using the experience presented in this report. Due to the uncertainty around the impact of programmatic changes, the volatility of claims trends, and the future economic environment, the range represents a reasonable variation in those drivers. The lower end of the range reflects a lower level of benefit expense impacts associated with these items, as well as slightly higher wage and covered employee growth. The higher end of the range reflects higher benefit expenses and slightly lower wage and covered employee growth. Potential variation becomes more material when compounded over multiple years into the future. Having the staff to perform modelling at a more granular level would improve the accuracy of the projection, narrowing the range of potential outcomes projected.

Figure 30: Actuarial rate ranges



Source: WA Paid Leave FY25 projection and additional scenario analysis based on FY25 projection, January 2026 – December 2029

Comparison of rate formulas

The current premium rate is defined in RCW 50A.10.030[29], 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, minus 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,

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

The current rate method continues to contribute to intermittent deficits since it only considers prior data and not the future projection, as well as having no levers to adjust the rate for solvency concerns. Below is an example of the actuarial rate method which would alleviate some of the risks associated with the current method. The actuarial premium rates are developed 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.

$$Actuarial\ Premium\ Rate_i$$

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

$$= \frac{Leave\ Expenditure_i + Non - Benefit\ Expenditure_i}{Taxable\ Wage\ X\ Exemption_i} \div (1 - Target\ Combined\ Ratio)$$

$Notation$

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

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

$Non\text{-}Benefit\ Expenditure = Administrative\ costs + SBA\ grants$

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 an adequate rate, but not excessive, to cover expenses during the rate year remains throughout iterations of the method.

Appendix III – Additional items of note

An effort was made to include known items that will have a material impact on future experience in the projection, however some items will have an unknown effect on the projection and so have not been adjusted for. Additionally, where the projection does include adjustments, if the impact of those adjustments materializes differently than assumed it would affect the projected results. Below are some examples of items that were not adjusted for, or that could vary from what was assumed.

- The impact, if any, of full implementation of the program including penalties and interest, as well as overpayments, is unknown, and the projection does not include adjustments for these administrative changes.
    - Additionally, penalties and interest will accumulate in an account outside of the Paid Leave insurance account so would not affect the financial results of the Paid Leave insurance account.
- Past overpayments identified by the Customer Compliance Division related to potential fraud was not material at their current levels so no adjustment was made for overpayments in this projection, but this will continue to be monitored.
- 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 IV - Premium rate methodology recommendation[30]

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 2027. If a required rate is needed that exceeds 1.20%, truncating the rate with a cap could result in inadequate premiums for the claims paid. 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. A forward-looking rate method would adjust rates sooner for potential changes and minimize carried-forward losses to the extent possible. While the actuarial model would set rates adequate for the projected expenses and support solvency, a statutory rate cap introduces risk that the actuarial model would not be able to set an adequate rate which could affect solvency.
- The program solvency standard should be forward looking due to the substantial growth of the program. In addition, Employment Security suggests stress testing if policy changes or new coverages will have profound impacts to the benefit payment, Examples of stress testing would be considering how the impact of the potential changes could vary under different characteristics, such as varied economic scenarios or a shorter glidepath to the full impact of the change. The additional testing helps to better inform how impacts to experience and benefits could vary under a range of outcomes, further affecting the program including future solvency risk. An example of this would be ensuring that future changes are covered by the reserve and do not cause insolvency under a mildly pessimistic view of outcomes, to help support future solvency when the future is uncertain. The degree of pessimism tested would align with the programs risk tolerance assumed when setting the program reserve level target.
- The targeted reserve level should be reviewed so that it meets an appropriate level of risk mitigation during stress events.

[30] These recommendations follow the responses provided by Employment Security to the Paid Family and Medical Leave Joint Legislative Audit and Review Committee audit report. Read the full JLARC report for more information.