Washington
Paid Family & Medical Leave

Voluntary Plan Costs and Fees

Employment Security Department
WASHINGTON STATE

August
2022

Washington
Paid Family & Medical Leave

Voluntary Plan Costs and Fees

August 2022

The Washington state Paid Family and Medical Leave program includes a provision for employers to operate a "Voluntary Plan" in lieu of participating in the state's plan. These leave programs must meet or exceed the state's Paid Family and Medical Leave (Paid Leave) benefits. They also may not cost more to employees than the state plan would. Interested employers submit a voluntary plan application to the Employment Security Department (ESD), along with a nonrefundable application fee. After ESD reviews and approves plans, the department provides ongoing technical assistance to employers operating voluntary plans. Plans must be fully reviewed on a periodic basis for the first few years to ensure requirements are met.

This report is a product of RCW 50A.30.010. It covers information about Voluntary Plans, the expenses ESD incurs with the administration of voluntary plans, and the adequacy of the application fee to cover these expenses.

Key insights:

- To date, ESD's costs to administer voluntary plans are not covered by application fees.
- Fee revenue collected in 2018 was $47,000 and had fallen to about $5,000 in 2021.
- Most of the costs related to supporting voluntary plans are incurred in the first three years a plan is active, during which there are annual plan reviews. There is no mechanism outside of audits to review plans after the first three years to ensure legislative programmatic changes have been incorporated.
- Though ESD's costs are expected to fall this year as more plans reach the end of their initial annual review period, fees will remain far from sufficient to cover costs.
- Under the current structure, a voluntary plan could be active indefinitely with some ongoing costs each year, but no new fee revenue.
- Program changes have been enacted each year since launch. Future changes to the program could potentially increase customer service needs, and changes to the fee structure could affect administration costs.

Voluntary Plans

Employers may apply to operate a voluntary plan that covers family leave and/or medical leave equivalent to what the state program provides. When employers choose only family leave or only medical leave coverage, they participate in the state leave program for the type of leave not covered by their voluntary plan. As of the beginning of 2022, there were 282 Paid Leave voluntary plans. Table 1 depicts the number of employers and employees covered by family and medical leave voluntary plans. The vast majority of voluntary plan employers (90%) provided plans that covered both family and medical leave. The remaining share provided medical only plans (10%) or family only plans (less than a percent).

Table 1. Active Voluntary Plans by Type

Plan Type	Employers	Employees
All Active Voluntary Plans	282	120,899
Combined Type	253	114,913
Medical Only	27	5,978
Family Only	2	8

Active Voluntary Plans as of 01/01/2022
Employment records depicted only show those with known employee counts.

Based on estimates from employer size in Paid Leave administrative data, these 282 employers cover 120,899 employees under their plans. About 95% of these employees are covered by combination voluntary plans (covering both family and medical leave). About 5% are covered with medical leave only voluntary plans and less than a percent covered by a family leave only plan. These employees covered by a medical leave only or family leave only voluntary plan would be covered for the other type of leave through the state plan. In addition, for any individual employee applying for leave, coverage depends on employment during their qualifying period. If they worked for multiple employers during that period, where they worked the most hours determines which plan covers approved leave benefits.

Voluntary plan fee revenue

As the Paid Family and Medical Leave program was being implemented, the ability for employers to apply for a voluntary plan was one of the first program components launched. Washington employers who had already been or wanted to start providing equivalent (or more generous) benefits to employees through their own plan began submitting applications in September 2018.[1] Starting the voluntary plan application process in advance of premiums assessment (beginning January 2019) was intended to smooth the transition for these employers – those applying early were able to have their approval in place prior to January.

[1] Because of the tight timeline, launched just 14 months after Governor Inslee signed the bill creating WA Paid Leave, to get this functionality launched successfully it was deployed through a separate system than the subsequently developed wage reporting and benefits online portal. Applications and renewal reviews were also originally manually tracked and are now tracked in the case management system. As such, accurate data linkages, especially for prior years, are somewhat challenging. Many components of the review and tracking process remain manual to date. We continue to iterate improvements on the program. Given we have a workable process with current functionality and this is a low-volume component, other system gaps and customer improvements have been higher priority to date.

Each voluntary plan application requires a nonrefundable $250 fee.[2] Tables 2 and 3 show the annualized number of application fees and the corresponding total fee revenue collected through the end of 2021. ESD collected a total of 384 application fees from 2018 through 2021, corresponding to $96,000. The number of fees collected does not, however, equate to number of active approved voluntary plans. For example, an employer may have applied but later withdrew their application, or it was denied because the plan did not meet the requirements.

Table 2. Payments for Voluntary Plans by Type

Type of Voluntary Plan	2018	2019	2020	2021	Overall
Overall Voluntary Plans	188	156	19	21	384
Combined Plans	154	136	13	19	322
Medical Only Plans	27	15	6	0	48
Family Only Plans	7	5	0	1	13

Table 3. Fees Collected for Voluntary Plans by Type

Type of Voluntary Plan	2018	2019	2020	2021	Overall
Overall Voluntary Plans	$47,000	$39,000	$4,750	$5,250	$96,000
Combined Plans	$38,500	$34,000	$3,250	$4,750	$80,500
Medical Only Plans	$6,750	$3,750	$1,500	$0	$12,000
Family Only Plans	$1,750	$1,250	$0	$250	$3,250

Note: Fees are not directly separable in the revenue data system from other employer-paid revenue. As such, to determine totals here we estimate using the available data on number of applications with fee paid multiplied by $250.

Most new plan applications were submitted in the first two years. Compared with 2018, there were 89% fewer application fees in 2021. We do not have reason to predict a substantial increase or decrease in voluntary plan applications in the near future. We have received approximately 20 applications, or $5,000 in fee revenue, for each of the past two years, so we may reasonably assume next year will be around that level too.

Expenses to administer voluntary plans

Current and projected next year expenses

To get to current expenses required for ESD's administration of voluntary plans, we developed a staffing model following the same methodological process as the staffing model developed in 2021 for the Paid

[2] RCW 50A.30.010 states "the fee for the department's review of each application for approval of a Voluntary Plan is two hundred fifty dollars."

Leave operations team.[3] To determine the number of operations staff needed, we captured the work tasks related to voluntary plans and associated time required. From there, we use a mathematical formula that takes those inputs, along with available active work time per FTE, to calculate staffing needs. The goal of this approach was to be able to use the past year's volumes and average inputs to calculate staffing needs for all voluntary plan work.

We estimate a total of 290 new and annual voluntary plan reviews in 2021. Once an application is submitted, it must be reviewed and approved. After that, the plan is reviewed again annually for the first three years. These annual reviews substantively involve the same amount of work as the initial reviews and thus take the same average time per review (300 minutes), including time for any necessary fact-finding and conversations with the employer. We use best estimates for volumes throughout because the system where applications are submitted is different from the system recording approved plan information, and the two cannot always be easily linked in the data. [4] In addition, the bulk of tracking the process between submission and approval is manual and in case notes that are not readily quantifiable.

To determine costs, we first assess the primary components of voluntary plan administration and the associated time. In addition to review and determination of new applications and renewals, the workload for our operations team includes phone calls, emails and secure messages, revisions and reviews of revisions, and management reviews of voluntary plans. Time per task that enters into the staffing model is based on our best estimates gathered from subject matter experts. In 2021, Leave and Care specialists spent approximately 4,068 hours processing voluntary plans and providing related support to employers, e.g., via secure messages and outgoing calls.

In addition to review and determination on voluntary plan applications and renewals, other work is needed to administer voluntary plans. Employers with voluntary plans may call ESD with questions or for benefits support.[5] Appeals and audits also require staffing to support. The finance team reconciles application fees, does account research, and creates financial reporting. Communications, Policy, and Research and Data teams all also have ongoing tasks as part of administering voluntary plans. IT had costs in prior years, but currently no ongoing costs directly stemming from VP administration.[6]

For positions with greater than 0.2 FTE support required to administer voluntary plans (Specialist 2s and 3s), we estimate costs using FTE. For positions providing smaller necessary amounts of support, we look at hours of work required for the time component. Since we have three Specialist 2s dedicated to voluntary plan support, we use current average salary to estimate cost of the Specialist 2 positions. For other

[3] See https://media.esd.wa.gov/esdwa/Default/ESDWAGOV/newsroom/Legislative-resources/ESD%20PFML%20September%201%202021%20Report.pdf

[4] Linkages become challenging for example when applications list incorrect UBI number. The application system is not directly linked to the system in which Voluntary Plan reviews are tracked or the system in which approved Voluntary Plans are recorded.

[5] For example, when an employee is about to take leave, Voluntary Plan employers may request ESD calculates what an employee's benefit amount would have been under the state plan to ensure they are complying with the requirement to meet or exceed state plan benefits.

[6] Future improvements to the data system to better track Voluntary Plans and their related case management from application and through renewal reviews would require some IT resources for a period. Much of this tracking is manual and involves multiple touchpoints of manual data entry.

positions using FTE, we use estimate of salary at step F in the position's range. For positions contributing small but necessary amounts of time, we estimate using the more conservative approach of average hourly salary rate multiplied by number of hours of voluntary plan work in the year. This means we are not including fractions of benefits, equipment costs, or similar staffing costs for these positions, nor fractions of required breaks, leave, and standard administrative work.

We are also not including any costs associated with support functions or shared services that do not directly touch voluntary plans, but may indirectly support (e.g., trainers, managers of the staff directly working on voluntary plans). Finally, we are not including costs directly related to legislative changes made to the Paid Leave program that affected voluntary plan employers, as those costs would have been addressed in the fiscal notes for those bills; they do not represent ongoing costs necessary to administer voluntary plans.

Table 4. 2021 voluntary plan staffing needs

Team	Voluntary Plan Tasks	Job Class	FTE or Hours per month
Employer Team	Voluntary plan processing: Reviewing and making determination on applications and renewals, including manager review, reviewing revisions to plans, related secure messages and outgoing phone calls	PFML Specialist 2 WMS 1	3.0 FTE 4 hours
Customer Care	Fielding incoming voluntary plan calls	PFML Specialist 2	4 hours
Appeals	Reviewing and representing agency in appeals hearings	Administrative Hearings Sup	12 hours
Audit	Conducting audits of VP employers	PFML Specialist 3 WMS 1	0.27 FTE 2.5 hours
Communications	Keeping voluntary plan employers informed	CC4 WMS 2	1.25 hours 1.25 hours
Policy	Conducing policy research and decisions	TPS 4	10 hours
Research & Data	Reporting on voluntary plans, supporting VP data tracking	EA 3	3.5 hours
Finance	VP related accounting, account research, and fiscal reporting	FA 4	4 hours

Taken together, we estimate 2021 costs to administer voluntary plans to have been $210,940 in total. The voluntary plan workload is expected to fall for the coming year, with most of the approved plans from the first year coming to the end of their annual review period. Accounting for the general wage increase taking effect in July 2022, we estimate 2022 costs to come in at about $116,157.

Historical expenses

For years prior to 2021, estimating expenses becomes a bit more challenging. Our systems to compartmentalize, track, and accurately estimate average time each task requires have matured as we grew through the first few years of operating Paid Leave. In addition, it is challenging to separate out the implementation costs from the administration/operating costs for the early years. When considering only the latter, we believe they remained in total roughly the same across years 2018-2020, with moderate variation.

In the early period, costs would have been significantly higher per month. We first began accepting voluntary plan applications in September 2018. Thus, the 188 plan applications submitted with fee that year were all received in a four-month period and there was added urgency to the reviews to have determinations in place before premium assessment began. The following year, new plans applications with payment dropped to 156, but in addition to those new plans, the approved plans from 2018 would have been in their first year of annual review requirement.

In addition, during that initial period, all our staff were new and the program was still in development, so many programmatic policy and process questions remained to be addressed. Because the program was in its infancy, voluntary plan application reviews took substantially more time than they do currently. All of the customer care staff on board at that time worked on reviewing these applications. In addition, these early voluntary plan determinations also all went through a full review by an operations manager and policy team staff member. Many policy and program questions emerged during these early application reviews, requiring research and consultation with agency and program advisors.

At the same time, some of these higher costs were offset in the early period with the fact that other ongoing voluntary plan functions had not yet come into play. For example, there are no voluntary plan audits to do until there are active voluntary plans. Development of the compliance unit for Paid Leave grew and developed substantially in 2021. Analysis of voluntary plan data to report on employer participation and employee coverage, or respond to ad hoc requests for analyses also could not occur until after data existed. All that said, our best estimate of average annual expenses needed to administer voluntary plans for the 2018-2020 period is similar to 2021, about $210,000.

Expenses and fees compared

Are voluntary plan fees sufficient to cover ESD’s costs to administer these plans? In short, no. For 2021, we received $5,250 in application fees and spent nearly $211,000 on staffing costs necessary to administer voluntary plans. Costs exceeded fees by over $205,000. The voluntary plan component to WA Paid Leave is currently being supported in a substantial part by state plan premium revenue.

Table 5. Estimated Voluntary Plan Costs and Fees

	2018	2019	2020	Current 2021	Projected 2022	Projected 2023
Fees	$47,000	$39,000	$4,750	$5,250	$5,000	$5,000
Costs	~ $210,000 per year			$210,940	$116,157	$109,882

In 2022 and 2023, we expect costs to fall significantly, with more plans reaching the end of their required annual reviews.[7] Once approved and reviewed annually for three years, a plan may continue indefinitely without any subsequent review. However, even once plans reach the end of their initial review period, there remains some ongoing work to administer voluntary plans. Beyond the annual reviews for the first three years, necessary ongoing supports include such things as communications, appeals, audits, fiscal account research, reporting and ad hoc data requests, and policy interpretations needed to support the voluntary plan component of WA Paid Leave. To put it more bluntly, even if there are no new voluntary plan applications – and thus $0 fee revenue – ESD will incur some costs to administer existing voluntary plans.

Adding to the complexity, the level of effort is not simply different the first year of a voluntary plan versus continuing years. Renewal reviews occur annually for the first three years following initial approval. After that, reviews are only necessary if employers make non-required changes to their plans. Voluntary employer-prompted amendments are treated as new plan applications and reviewed accordingly.

Programmatic changes have been enacted each year since benefits have been available. As future changes are made to the WA Paid Leave program, there is no mechanism in the current structure for reviewing voluntary plans that are beyond their first three years to ensure they have incorporated required changes, outside of compliance investigations prompted by employee complaints. Future changes could also increase customer service needs. If future changes are made to the voluntary plan fee structure or approval process, that could affect administration costs as well. Finally, though the fee was set at a flat amount, staffing costs to administer plans will increase as wages increase in future years. These are important factors to consider as Legislature takes up the question of what the voluntary plan fee should be in future.

[7] We also adjust here for the 3.25% cost of living adjustment taking effect July 2022 and incorporate a standard budget projections assumption of 2% increase in costs for the following year.

Appendix

Voluntary plan employer characteristics and statewide comparison

What types of employers are participating in voluntary plans? As observed in Table 6, of the 264 voluntary plan employers for whom we have sizing data, nearly two-thirds were small employers with fewer than 50 employees. This is substantially different than the 95% of employers across the state designated as small employers.[8] There were 18 voluntary plan employers for which employee counts and sizing information could not be accurately measured using Paid Leave administrative data.[9]

Table 6. Comparing Employers by Size: Voluntary Plans vs. Statewide

Employer Size	VP Employers		Statewide Employers	
Overall Employers	282		215,625	
Have Size Data	264		215,625	
Large Employer	104	(39%)	9,798	(5%)
Small Employer	160	(61%)	205,827	(95%)
Unknown Size	18		N/A	

Leave and Care administrative data pulled on 02-24-22.
Large employers are those with 50 or more employees, small representing anything less.

Voluntary plans cover 3% of statewide employment (120,899 employees). Of course, large employers by definition have more employees, so though 39% of voluntary plan employers are large, they have 99% of voluntary plan covered employment. Large employers across the state make a significantly larger portion as well, with just 5% of employers designated as large accounting for 68% of all employment.

Table 7. Comparing Employees by Size: Voluntary Plans vs. Statewide

Employer Size	VP Employees		Statewide Employees	
Overall Employers	120,899		3,901,719	
Large Employer	119,427	(99%)	2,653,602	(68%)
Small Employer	1,472	(1%)	1,248,117	(32%)

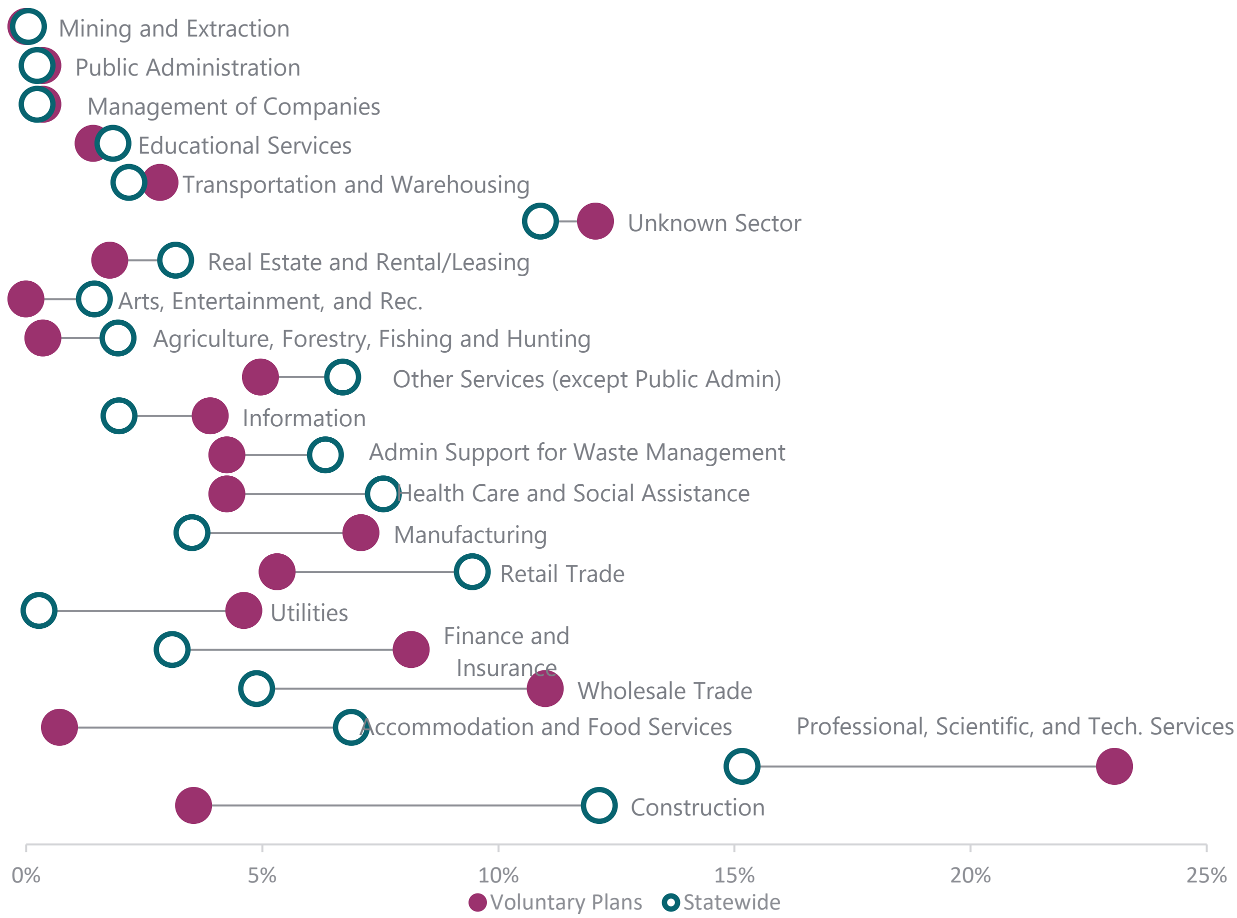
Leave and Care administrative data pulled on 02-24-22.
Large employers are those with 50 or more employees, small representing anything less.

[8] Employer size is typically calculated each year using average quarterly headcount.

[9] As voluntary plan employers are still required to submit quarterly wage reports to ESD, Paid Leave program administrative data includes information about these employers and their employees. However, it is clear from the data that some confusion remains about the reporting process. Evidence of this includes such things as some employers not submitting quarterly wage reports after their voluntary plan has been approved, or reporting sporadically, missing some quarters within a year. The ESD Leave and Care Division audit team has been conducting audits of voluntary plan employers to ensure employers understand requirements and to address information gaps. Because the state Paid Leave program is relatively new, audits to date have focused on educating and supporting employers to successfully fulfill their responsibilities. However, under the law, voluntary plans may ultimately be terminated due to incompliance.

Voluntary plan employers are also more common in certain industries. Figure 1 shows voluntary plan and statewide employers based on their sector. Where the markers indicating voluntary plan employers or statewide employers are close or overlapping, that means there is not much difference. Greater distance indicates a greater difference. Where the voluntary plan marker is to the right of the statewide marker, that indicates voluntary plans are more common in that industry than would be expected from their share in the statewide economy if participation was even across industries.

Figure 1. Comparing Employers by Sector: Voluntary Plans vs Statewide



Voluntary plan employers are largely concentrated in the professional, scientific, and technical services (23%), wholesale trade (11%), finance and insurance (8%), and manufacturing (7%) sectors. These four sectors account for over 50% of all voluntary plan employers but just over a quarter of all statewide employers. The sectors underrepresented compared to statewide employers are construction, accommodation and food services, and retail trade. Those sectors where voluntary plans are more common typically show higher average annual incomes and are among those industries where extended leave benefits are more commonly offered by employers. This industry participation pattern relates at least in part to the fact that employers already offering generous leave benefits prior to WA Paid Leave being enacted are those that have tended to be most interested in pursuing voluntary plans.

Table 8. Comparing Employers by Sector: Voluntary Plans vs Statewide

Sectors	Voluntary Plans	Statewide	Variance
Construction	4%	12%	-9%
Professional, Scientific, and Tech. Services	23%	15%	8%
Accommodation and Food Services	1%	7%	-6%
Wholesale Trade	11%	5%	6%
Finance and Insurance	8%	3%	5%
Utilities	5%	0%	4%
Retail Trade	5%	9%	-4%
Manufacturing	7%	4%	4%
Health Care and Social Assistance	4%	8%	-3%
Admin Support for Waste Management	4%	6%	-2%
Information	4%	2%	2%
Other Services (except Public Admin)	5%	7%	-2%
Agriculture, Forestry, Fishing and Hunting	0%	2%	-2%
Arts, Entertainment, and Rec.	0%	1%	-1%
Real Estate and Rental/Leasing	2%	3%	-1%
Unknown Sector	12%	11%	1%
Transportation and Warehousing	3%	2%	1%
Educational Services	1%	2%	0%
Management of Companies	0%	0%	0%
Public Administration	0%	0%	0%
Mining and Extraction	0%	0%	0%

Leave and Care administrative data pulled on 02-24-22.

Voluntary plan application and renewal review process

Initial and amended voluntary plans are submitted via the Paid Family and Medical Leave website. Voluntary plan specialists verify receipt of the voluntary plan application fee, then review the plans using the RCWs, WACs and a checklist as guidance to ensure compliance with the law. If anything in the plans does not appear to comply with the law, we request revisions. We assist the employers with any related questions or concerns by phone or email.

Once we determine the voluntary plan can be approved, staff send copies of the plan and completed checklists to management for final review. Once management concurs on determination, copies of the approved plans are attached to records in the data systems and date spans are added to the Leave and Care case management system (CRM). Plans go into effect at the beginning of the following quarter. We notify the employers of their approvals and let them know their plans will be reviewed again for reapproval, as required by law for the first three years. When it is time for approved plans to receive their renewal reviews, we send emails to the employers to inform them of the upcoming reviews. We request in these emails that they reach out to us with any questions. Renewal reviews go through the same review process as initial plan application reviews.