

Actuarial Analysis of Washington Paid Family and Medical Leave Benefits

OCTOBER 7, 2022

Limitations

- We relied on information provided by the State of Washington Office of Financial Management and the Washington State Employment Security Department. If any of this information is inaccurate or incomplete, our results may be affected and would need to be revised.
- Our analysis uses actuarial assumptions that are individually reasonable and that, in combination, offer our best estimate of anticipated experience. To the extent that actual experience varies from these assumptions, the emerging costs of the Washington PFML program will vary from the projections contained herein.
- Milliman's work product was prepared exclusively for the Washington Office of Financial Management for the specific purpose of analyzing future PFML experience and evaluating PFML program funding levels. Milliman recognizes that this report may be public record subject to disclosure to third parties. It is not for the use or benefit of any third party for any purpose.
- We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant Actuarial Standards of Practice.
- I, Paul Correia, am a Consulting Actuary with Milliman. I am a member of the American Academy of Actuaries, and I meet its Qualification Standards to render the actuarial opinion contained herein.

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Summary of Results

PFML Fund Balance

- The PFML Fund balance decreased from \$467 million as of March 31, 2020 to \$32 million as of June 30, 2022.
- Based on a projection of PFML experience for the remainder of 2022, we expect the PFML fund to be in deficit of approximately \$9 million as of December 31, 2022.

Contribution Rate

- We projected future PFML experience based on different contribution rate scenarios. According to these projections, the current rate of 0.60% is not expected to provide adequate funding for future benefits and expenses in 2023.
- Based on our projections, a contribution rate of 0.79% effective January 1, 2023 is expected to cover benefits and expenses in 2023, and to return the PFML fund to a surplus position by December 31, 2023. This result may be useful for assessing a solvency surcharge in 2023, if necessary.

Premium Provisions

- The Washington PFML premium provisions do not include an explicit target fund balance.
- We recommend establishing a target for the PFML fund equal to three months of expected benefit payments.

Washington PFML Premium Provisions

- Contribution rate determinations are based on the PFML fund balance ratio as of September 30th of the previous year.
- The PFML fund balance ratio is equal to the PFML fund balance divided by the PFML covered wages.

PFML Fund Balance Ratio	Contribution Rate
0.00% to 0.09%	0.60%
0.10% to 0.19%	0.50%
0.20% to 0.29%	0.40%
0.30% to 0.39%	0.30%
0.40% to 0.49%	0.20%
0.50% or greater	0.10%

- If the PFML fund balance ratio is below 0.05%, a solvency surcharge is assessed at the lowest rate necessary to provide revenue to pay for the administrative and benefit costs of family and medical leave for the calendar year.
- The solvency surcharge is between 0.1% and 0.6% added to the current PFML contribution rate.

Washington PFML Financial Experience from Q1 2020 through Q2 2022

Quarter	Premium Collected	Benefit Payments	Program Expenses	Fund Balance (EOQ)
Q1 2020	\$173,322,449	\$58,097,965	\$17,000,521	\$467,175,755
Q2 2020	\$181,439,330	\$178,704,222	\$16,131,515	\$454,155,478
Q3 2020	\$166,188,885	\$176,968,010	\$10,828,664	\$426,789,030
Q4 2020	\$157,214,106	\$196,941,857	\$10,576,426	\$376,395,510
Q1 2021	\$149,183,776	\$188,722,503	\$10,838,875	\$326,614,034
Q2 2021	\$188,265,127	\$217,229,287	\$11,269,084	\$286,518,805
Q3 2021	\$191,177,440	\$247,615,148	\$9,058,262	\$221,549,805
Q4 2021	\$172,121,396	\$263,977,965	\$11,154,230	\$122,981,194
Q1 2022	\$170,429,193	\$268,707,990	\$13,874,313	\$19,057,567
Q2 2022	\$317,165,156	\$288,963,048	\$14,252,695	\$31,634,119

- Collected premiums were relatively level during the experience period. Premiums collected in Q2 2022 were assessed using a rate of 0.60%, whereas premiums from prior periods were assessed using a rate of 0.40%.
- Benefit payments increase in almost every quarter.
- Expenses from Q3 2020 through Q4 2021 were relatively level during the experience period, and increased in Q1 and Q2 2022.
- The PFML fund balance decreased to \$32 million as of Q2 2022.

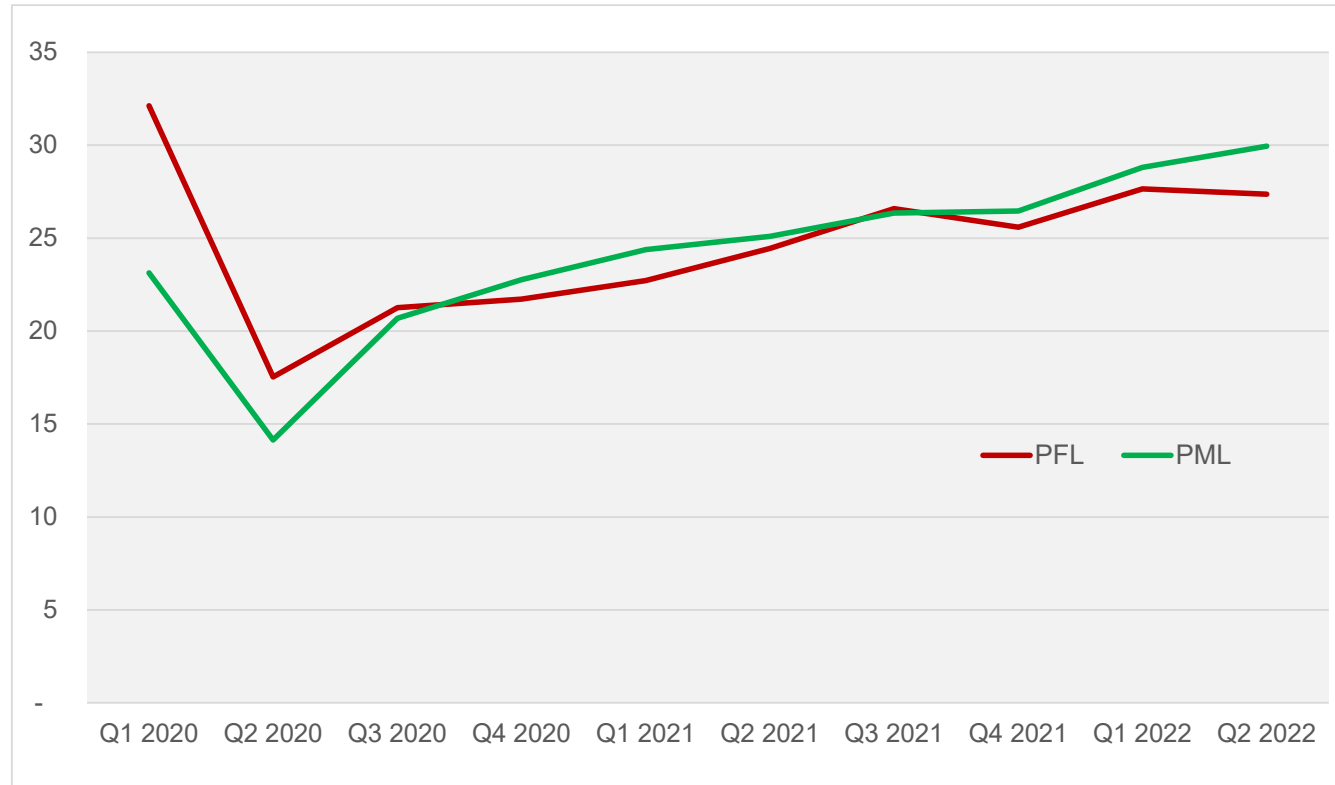
Projected PFML Fund Balance as of December 31, 2022

A. Fund Balance December 31, 2021	\$122,981,194
B. Expected Contributions	\$1,079,032,754
C. Expected Benefits	\$1,155,214,357
D. Expected Expenses	\$56,254,016
E. Expected Investment Income	\$768,139
F. Expected Fund Balance December 31, 2022 (A + B – C – D + E)	(\$8,686,285)

- Expected contributions are based on a contribution rate of 0.60% and include actual contributions from Q1 and Q2 of 2022 as well as expected contributions in Q3 and Q4.
- Expected benefits and expenses include actual benefits and expenses from Q1 and Q2 of 2022 as well as expected benefits and expenses in Q3 and Q4.
- Expected investment income of \$768,139 was provided to Milliman by The State of Washington Office of Financial Management.

Historical PFML Claim Trends

Claim Incidence Rates per 1,000 Covered Employees



- The incidence rates represent the number of claims approved for benefits per 1,000 covered employees in every quarter.
- The PML incidence rates increased from Q2 2020 and beyond.
- The PFL incidence rates increased from Q2 2020 and are relatively level in recent quarters.

Average Claim Durations in Weeks

Quarter	Bonding	Care	Military	Maternity	Non-Maternity
Q1 2020	8.8	5.7	2.7	8.0	6.9
Q2 2020	8.3	6.3	3.3	7.1	6.9
Q3 2020	8.2	5.9	4.0	7.2	6.9
Q4 2020	8.2	6.2	2.4	7.5	6.8
Q1 2021	8.0	6.0	3.5	7.7	6.8
Q2 2021	8.0	6.0	3.0	8.1	6.9
Q3 2021	8.1	6.0	4.1	8.1	6.8
Q4 2021	8.1	6.0	4.2	7.9	6.8
Q1 2022	8.0	5.9	3.0	8.1	6.6

- Average PFML claim durations were generally stable during the experience period, especially in the most recent four quarters.
- There were significantly fewer Military claims than other claims, which is why the durations for Military leaves are volatile.

Washington PFML Funding Analysis

A model was developed for projecting Washington PFML experience from 2023 through 2027

Model objective:

- Project financial experience for Washington PFML from 2023 through 2027.
- Test different contribution rate scenarios to evaluate their impact on PFML fund balances.
- Develop contribution rates that cover expected benefit payments and expenses and maintain target fund level of three months of expected benefit payments.

Modeling assumptions:

- **Morbidity**
 - We assumed PFML claim incidence rates will continue to increase in 2023 and 2024 then stabilize in 2025 and beyond.
 - We assumed average claim durations will increase slightly due to recent changes in PFML legislation.
 - We assumed average benefit amounts will increase every year due to wage growth.
- **Demographics**
 - We assumed covered employees and taxable wages will increase based on employment growth forecast from Washington Economic and Revenue Forecast Council.
- **Investment income**
 - We assumed the PFML fund will earn investment income based on forecasts from the Washington State Treasury's Office and on historical PFML fund returns.
- **PFML fund balance as of January 1, 2023.**
 - We assumed a deficit of \$8.7 million.

Model Input

- PFML contribution rates from 2023 through 2027.

Model Output

- Financial projections of Washington PFML experience from 2023 through 2027.

Washington PFML Funding Analysis

Scenario 1: Current contribution rate of 0.60% throughout the projection period

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Eligible Employees	3,263,058	3,286,298	3,310,819	3,342,020	3,376,240
Taxable Wages (\$ millions)	\$222,391.3	\$233,938.0	\$245,976.7	\$258,722.6	\$271,683.2
Claims					
Family	93,178	97,294	99,325	100,261	101,287
Medical	109,557	120,913	125,811	126,997	128,297
Total	202,735	218,207	225,136	227,257	229,584
Benefit Payments (\$ millions)					
Family	\$666.2	\$726.5	\$774.1	\$814.2	\$855.0
Medical	\$660.7	\$761.6	\$827.1	\$870.0	\$913.5
Total	\$1,326.9	\$1,488.2	\$1,601.2	\$1,684.1	\$1,768.5
Expenses (\$ millions)	\$74.0	\$77.9	\$80.1	\$81.7	\$83.3
Total Expenditure (\$ millions)	\$1,400.9	\$1,566.0	\$1,681.3	\$1,765.8	\$1,851.8
Contribution Rate					
Employer	0.16%	0.16%	0.16%	0.16%	0.16%
Employee	0.44%	0.44%	0.44%	0.44%	0.44%
Total	0.60%	0.60%	0.60%	0.60%	0.60%
Contributions (\$ millions)					
Employer	\$272.7	\$286.8	\$301.6	\$317.2	\$333.1
Employee	\$978.5	\$1,029.3	\$1,082.3	\$1,138.4	\$1,195.4
Total	\$1,251.2	\$1,316.2	\$1,383.9	\$1,455.6	\$1,528.5
Investment Income (\$ millions)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Fund Balance					
Beginning of Year	(\$8.7)	(\$158.4)	(\$408.2)	(\$705.7)	(\$1,015.9)
End of Year	(\$158.4)	(\$408.2)	(\$705.7)	(\$1,015.9)	(\$1,339.2)
Target	\$331.7	\$372.0	\$400.3	\$421.0	\$442.1

- Deficit is expected to grow under the current contribution rate of 0.60%.
- No investment income was assumed due to negative fund balances.
- Target fund balances are equal to three months of expected benefit payments in every year.
- We did not assume any borrowing costs for the funds made available to cover benefits and expenses.

Washington PFML Funding Analysis

Scenario 2: Contribution rate of 0.790% in 2023 and 2024 followed by a rate reduction to 0.735% in 2025 through 2027

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Eligible Employees	3,263,058	3,286,298	3,310,819	3,342,020	3,376,240
Taxable Wages (\$ millions)	\$222,391.3	\$233,938.0	\$245,976.7	\$258,722.6	\$271,683.2
Claims					
Family	93,178	97,294	99,325	100,261	101,287
<u>Medical</u>	109,557	120,913	125,811	126,997	128,297
Total	202,735	218,207	225,136	227,257	229,584
Benefit Payments (\$ millions)					
Family	\$666.2	\$726.5	\$774.1	\$814.2	\$855.0
<u>Medical</u>	\$660.7	\$761.6	\$827.1	\$870.0	\$913.5
Total	\$1,326.9	\$1,488.2	\$1,601.2	\$1,684.1	\$1,768.5
Expenses (\$ millions)	\$74.0	\$77.9	\$80.1	\$81.7	\$83.3
Total Expenditure (\$ millions)	\$1,400.9	\$1,566.0	\$1,681.3	\$1,765.8	\$1,851.8
Contribution Rate					
Employer	0.215%	0.215%	0.200%	0.200%	0.200%
<u>Employee</u>	0.575%	0.575%	0.535%	0.535%	0.535%
Total	0.790%	0.790%	0.735%	0.735%	0.735%
Contributions (\$ millions)					
Employer	\$364.1	\$383.0	\$374.7	\$394.1	\$413.8
<u>Employee</u>	\$1,279.7	\$1,346.2	\$1,316.9	\$1,385.2	\$1,454.5
Total	\$1,643.8	\$1,729.2	\$1,691.6	\$1,779.2	\$1,868.4
Investment Income (\$ millions)	\$2.1	\$3.4	\$4.4	\$4.2	\$4.4
Fund Balance					
Beginning of Year	(\$8.7)	\$236.4	\$403.0	\$417.6	\$435.2
End of Year	\$236.4	\$403.0	\$417.6	\$435.2	\$456.2
Target	\$331.7	\$372.0	\$400.3	\$421.0	\$442.1

- The projected fund balance reaches the target level by 2024.
- The projected fund balances in 2025 and beyond remain relatively stable and close to target levels.
- In order to first restore surplus, and then maintain a desired target, it is necessary for the initial contribution rate to be slightly higher than the long-term target rate before it comes back down again.

Washington PFML Funding Analysis

Scenario 3: Contribution rate of 0.790% in 2023 followed by a rate reduction to 0.750% in 2024 through 2027

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Eligible Employees	3,263,058	3,286,298	3,310,819	3,342,020	3,376,240
Taxable Wages (\$ millions)	\$222,391.3	\$233,938.0	\$245,976.7	\$258,722.6	\$271,683.2
Claims					
Family	93,178	97,294	99,325	100,261	101,287
Medical	109,557	120,913	125,811	126,997	128,297
Total	202,735	218,207	225,136	227,257	229,584
Benefit Payments (\$ millions)					
Family	\$666.2	\$726.5	\$774.1	\$814.2	\$855.0
Medical	\$660.7	\$761.6	\$827.1	\$870.0	\$913.5
Total	\$1,326.9	\$1,488.2	\$1,601.2	\$1,684.1	\$1,768.5
Expenses (\$ millions)	\$74.0	\$77.9	\$80.1	\$81.7	\$83.3
Total Expenditure (\$ millions)	\$1,400.9	\$1,566.0	\$1,681.3	\$1,765.8	\$1,851.8
Contribution Rate					
Employer	0.215%	0.204%	0.204%	0.204%	0.204%
Employee	0.575%	0.546%	0.546%	0.546%	0.546%
Total	0.790%	0.750%	0.750%	0.750%	0.750%
Contributions (\$ millions)					
Employer	\$364.1	\$363.6	\$382.3	\$402.1	\$422.3
Employee	\$1,279.7	\$1,278.0	\$1,343.8	\$1,413.4	\$1,484.2
Total	\$1,643.8	\$1,641.6	\$1,726.1	\$1,815.6	\$1,906.5
Investment Income (\$ millions)	\$2.1	\$3.4	\$4.4	\$3.6	\$4.2
Fund Balance					
Beginning of Year	(\$8.7)	\$236.4	\$315.4	\$364.6	\$418.0
End of Year	\$236.4	\$315.4	\$364.6	\$418.0	\$476.9
Target	\$331.7	\$372.0	\$400.3	\$421.0	\$442.1

- The projected fund balances increase gradually and remain within target levels in 2026 and 2027.

PFML Premium Provisions in Other States

The PFML premium provisions vary among different states.

California

- Target fund balance in the range of 25% to 50% of previous year's disbursements.
- Premium rate formula:
$$\frac{145\% \text{ of Previous Year Disbursements} - \text{Fund Balance}}{\text{Taxable Wages}}$$
- Contribution rate is capped at 1.5% of taxable wages.
- Rate reductions capped at 0.2%.
- Rates can be adjusted by +/- 0.1% if deemed necessary to maintain funding objectives.

New York

- Minimum fund balance of \$12 million.
- Disability premium rate is 0.5% of wages up to \$0.60 per week.
- State sets PFL contribution rate annually based on historical experience and “sound actuarial principles”.

Massachusetts

- State sets PFML contribution rate annually based on historical experience and a target fund level of no less than 140% of the previous fiscal year's expenditure for benefits and administration.

Colorado

- State sets premium rate such that total contributions equal to 135% of benefits paid during the preceding year, plus 100% of expenses during the preceding year, minus the fund balance as of December 31 of the preceding year.
- Premium contribution rate is capped at 1.2% of taxable wages.

Conclusion

- The Washington PFML fund is expected to be in deficit of approximately \$9 million as of December 31, 2022.
- The current contribution rate of 0.60% of taxable wages is expected to be inadequate for covering benefit payments and expenses in 2023.
- A contribution rate of 0.79% of taxable wages effective on January 1, 2023 is expected to provide adequate funding for benefit payments and expenses in 2023, and to return the PFML fund to a surplus position by December 31, 2023.
- The Washington PFML premium policy does not include an explicit target fund balance.
- We recommend a target fund balance equal to three months of expected benefit payments for the Washington PFML program. This target mitigates the risk of unexpected losses and future funding deficits.



Thank you

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