

Proposed Recommendation A (Alpha)
Legislative Task Force on Paid Family and Medical Leave Insurance Premiums

Task Force Members

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Proposed Recommendations

Prepared by proposal submitters

Change the rate setting formula to align with the model used by the actuary in the actuarial report.

Each year, on Sept. 30, the department shall calculate a 3-month reserve by determining the average quarterly benefit payments from the previous 4 completed quarters.

The department will determine the lowest rate necessary to pay projected annual benefits and maintain a 3-month reserve (as defined above). Projected annual benefits will be determined by:

- Identifying a fund utilization rate from the previous 4 completed quarters by dividing the number of workers who utilized the benefit by the total number of eligible workers.
- Multiplying the fund utilization rate by the projected number of eligible workers for the upcoming year based on employment estimates from the forecast council.
- Multiply the projected fund utilization rate by the average length of leave from the previous 4 quarters, then multiply by the average weekly benefit amount as calculated by the previous 4 quarters and adjusted for the average weekly wage increase.

To analyze the proposed change, we request the department conduct an analysis of historical program use, using the 2020 data - the most recent data available, applying the above proposed rate setting structure. We would like to see how this method would have performed if it had been used to set rates in 2021 and 2022.

Description/Reasoning/Other Background

Prepared by proposal submitters

In 2021, the PFML rate calculation formula indicated no rate increase was necessary, despite the fund paying significantly more in benefits than it took in for premiums. The rate formula indicated a modest increase in 2022 was needed, but still has raised enough funds necessary to pay benefits.

We believe the current rate setting formula that uses an ending fund balance on a specific day, rather than incorporating overall usage of the program is not supporting solvency and would like to see how a model similar to the one used in the actuarial report would have impacted rates based on historical data and program usage.

We would also like to test a 3-month reserve to see if that would have been sufficient to support fund solvency, based on benefit usage of the program.

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Fiscal Analysis

Prepared by Employment Security Department (ESD) and non-partisan legislative staff

Proposed Recommendation A (Alpha) closely aligns with the actuarial report with regards to benefits and requires the ESD to set the lowest rate possible to maintain solvency with a 3-month reserve at year-end. Section 723 of ESSB 5693 (2022) allows for up to \$350 million to be transferred into the Family and Medical Leave Insurance Account at the end of the 2021-23 fiscal biennium to cover any cash deficit as of June 30, 2023. Similarly, this proposed recommendation only allows for what is necessary of the \$350 million to cover the negative account balance on June 30, 2023 (\$67 million in this model). To achieve a 3-month reserve at year-end under this proposed recommendation, the premium rate would need to be higher in 2024 (0.85%) to attain a 3-month reserve by year-end before lowering to 0.67% in 2025 and 0.71% in 2026 and 2027 once enough of a surplus has been achieved.

Proposed Recommendation A (Alpha) outlines a new benefit projection method that the ESD would use in determining the lowest rate to pay those benefits, described in the Proposed Recommendation section above. When calculating the fund utilization rate from the previous four completed quarters, “workers who utilized the benefit” is defined as the number of paid claims, similar to the actuary’s report.

As illustrated in the table below, this proposed methodology would result in a lower projection for benefit payments compared to the baseline. When applying this methodology to previous years to see how it would have performed, the benefits projection method would have underestimated actual benefit payments in those years.

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Model	Calendar Year:	2023	2024	2025	2026	2027
Baseline* (ESD)	Benefit Payments	-\$1,383	-\$1,515	-\$1,661	-\$1,755	-\$1,844
	Premiums Collected	\$1,495	\$1,591	\$1,736	\$1,856	\$1,955
	Premium Rate	0.80%	0.75%	0.80%	0.80%	0.80%
	Account Balance (end of year)	\$69	\$72	\$72	\$97	\$129
Proposed Recommendation A (Alpha)	Benefit Payments	-\$1,352	-\$1,407	-\$1,470	-\$1,544	-\$1,621
	Premiums Collected	\$1,495	\$1,755	\$1,561	\$1,627	\$1,735
	Premium Rate	0.80%	0.85%	0.67%	0.71%	0.71%
	Account Balance (end of year)	\$85	\$359	\$376	\$382	\$418
Variance	Benefit Payments	\$32	\$108	\$191	\$211	\$223
	Premiums Collected		\$163	-\$175	-\$229	-\$220
	Premium Rate		0.10%	-0.13%	-0.09%	-0.09%
	Account Balance (end of year)	\$16	\$287	\$303	\$286	\$288

*Baseline is ESD's estimate based on continuing the current program state with a 2023 premium rate of 0.8%

Millions of dollars