Proposed Recommendation **D (Delta)**

Legislative Task Force on Paid Family and Medical Leave Insurance Premiums

Task Force Members

Senators Keiser and Robinson, Representatives Berry and Walen, Samantha Grad, Maggie Humphreys, Joe Kendo, Marilyn Watkins

Proposed Recommendations

Prepared by proposal submitters

At the end of the current biennium, use whatever remains of the $350 million allocated to the paid family and medical leave program as seed money for a 'reserve' in the paid family and medical leave fund. Thus, the remaining amount will be in the fund prior to calculating the 2024 rate using the new formula below.

Modify the covered wages on which premiums are assessed under RCW 50A.10.030 (4) to be $250,000 as of January 2024 and to grow at the same rate as weekly benefit amounts grow.

Modify the rate formula in RCW 50A.10.030(6) to be 140% of previous year disbursements (benefits + admin costs), subtracted by the fund balance, and divided by prior fiscal year taxable wages. Round to four decimal places. Next, round up to set the rate at two decimal places (so 0.7489% becomes 0.75%).

Modify the solvency surcharge in RCW 50A.10.030 (7) to remove a specific trigger, give permissive authority, and look at fiscal years instead of calendar years. The new subsection will read:

> The commissioner may assess a solvency surcharge at the lowest rate necessary to provide revenue to pay for the administrative and benefit costs of family and medical leave, for the fiscal year, as determined by the commissioner. The solvency surcharge shall be at least one-tenth of one percent and no more than six-tenths of one percent and be added to the total premium rate for family and medical leave benefits.

Description/Reasoning/Other Background

Prepared by proposal submitters

This proposal creates a reserve for the paid family and medical leave fund and establishes a rate formula similar to that in use by other states with similar programs. The reserve will allow greater stability in the rates year over year. The proposed changes work together to stabilize tax rates while shoring up the program’s financial structure.

This proposal also provides a fail safe for potential future cash flow concerns in worst-case scenarios by modifying the solvency surcharge process. The proposal considers the potential for a first quarter deficit while benefits are paid out during the lag period before receiving premiums towards the end of the first quarter.

The different growth factors by which benefits and wages on which premiums are assessed increase creates a long-term structural weakness in the solvency of the program. Over the last 5 years Washington's average annual wage grew by 7.0% while the social security wage base grew by 4.5%. Setting the covered wages at $250,000 allows us to catch up on the growth in benefits compared to covered wages since the program was designed 5 years ago. Assessing premiums on a larger percentage of wages better reflects Washington's wage structure and helps keep the overall premium lower for all employers and employees.

Fiscal Analysis

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

Proposed Recommendation D (Delta) includes a net fund transfer of $350 million (General Fund-State) into the Family and Medical Leave Insurance Account. Section 723 of ESSB 5693 (2022) allows for up to $350 million to be transferred into the Account at the end of the 2021-23 fiscal biennium to cover any cash deficit as of June 30, 2023. Pursuant to ESSB 5693, the ESD projects a fund transfer of $83 million into the Account. This proposal assumes the remaining $267 million ($350 million minus $83 million) would be transferred into the Account at the beginning of FY2024.

To arrive at the 2024 premium rate, the projected September 30, 2023, Account balance ($321 million) is subtracted from 140% of FY2023 disbursements ($1.9 billion) and is then divided by FY2023 taxable wages ($0.2 trillion). The resulting calculated rate of 0.7812% is rounded up to 0.79% to achieve the 2024 premium rate. This calculation is repeated yearly through 2027 with resulting rates and Account balances displayed in the table below.

Currently, premiums are collected up to the federal Social Security wage cap, which will be $160,200 in 2023. This proposal would raise the premium collections wage cap to $250,000 in 2024 and adjust annually at the average weekly benefit growth rate. The ESD projects this will increase premium collections by $21 million per Quarter initially, growing to $29 million per Quarter by the end of 2027. This impact is included in the “Premiums Collected” totals in the table below.

ESD Projection	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 (rounded up)	**0.80%**	**0.75%**	**0.80%**	**0.80%**	**0.80%**
	Account Balance (end of year)	***$69***	***$72***	***$72***	***$97***	***$129***
Proposal D	Benefit Payments	-$1,383	-$1,515	-$1,661	-$1,755	-$1,844
	Premiums Collected	$1,495	$1,722	$1,801	$1,824	$1,943
	Premium Rate (rounded up)	**0.80%**	**0.79%**	**0.76%**	**0.73%**	**0.75%**
	Account Balance (end of year)	***$336***	***$470***	***$535***	***$527***	***$548***
Variance	Benefit Payments					
	Premiums Collected		$131	$65	-$32	-$12
	Premium Rate (rounded up)		**0.04%**	**-0.04%**	**-0.07%**	**-0.05%**
	Account Balance (end of year)	**$267**	**$398**	**$462**	**$431**	**$419**

**Baseline is ESD's estimate based on continuing the current program state* *Millions of dollars*