

Paid Leave Solvency and Integrity Report Preliminary Update



Labor and Workplace Standards – October 6, 2026

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Agenda



- Overview
- Context behind the current financial conditions
- Timeline
- Approach and process in the analysis
- Preliminary view of the report
 - Top-10 sector impacts
 - State-to-state comparisons
 - Menu of policy options
- Program integrity

Guiding principles



Long-Term Program Stability

- Ensure solvency so benefits remain reliable through economic cycles.
- Support sustainable premium and reserve strategies with minimal volatility.
- Balance near-term needs with long-term financial stewardship.

Affordability and Economic Impact

- Limit cost-of-living impacts on workers and families.
- Consider employer impacts, especially small businesses.
- Pursue cost-effective policy options.

Equity and Access

- Preserve meaningful access across income levels, industries and regions.
- Evaluate solvency decisions through an equity lens.
- Maintain the program as a dependable safety net.

Predictability and Public Trust

- Use transparent and data-informed decision-making.
- Prioritize stability for workers, employers, and policymakers.
- Strengthen confidence in the program's long-term sustainability.

Timeline



April-June

- Develop menu of policy options
- Inventory of program design with peer states
- Initial meetings with OFM and Governor's

July-August

- Present at the July Paid Leave Advisory Committee Meeting
- Discussions with peer states on solvency, rate structure, and expenditures
- Analyze customer impacts & refine menu of policy options
- Provide outline of work to Paid Leave Advisory Committee for feedback

September-October

- Actuarial model of scenarios from menu of policy options
- Drafting the report
- Advisory comments/responses
- Present progress of report

November-December

- Publish report: Nov 1
- Present findings

Proviso report on Paid Leave



- (a) An evaluation of the solvency of the program. This evaluation should include:
 - (i) Potential program changes to achieve long-term fund solvency;
 - (ii) An economic analysis that examines potential program changes and their implications; and
 - (iii) A comparison of program designs from other states with a similar program;
- (b) An evaluation of the integrity of the program. This evaluation should include:
 - (i) Current practices in place to ensure program integrity;
 - (ii) Applicable rules and laws pertaining to the integrity of the program; and
 - (iii) A review of best practices used in other similar state and federal benefit programs;
- (c) Comments on the report provided by members of the Paid Leave Advisory Committee
- (d) Any recommendations from the department

Paid Leave Solvency



Financial context of Paid Leave



Washington's stand-alone Paid Family and Medical Leave was the first in the nation

- After initial implementation, set up as a self-funded program.
- Initial projections were difficult without other state programs to directly compare against.
- Initial premiums were not high enough to support the program's popularity.
- Program usage continues to grow .

Original program design can not support the popularity of the program

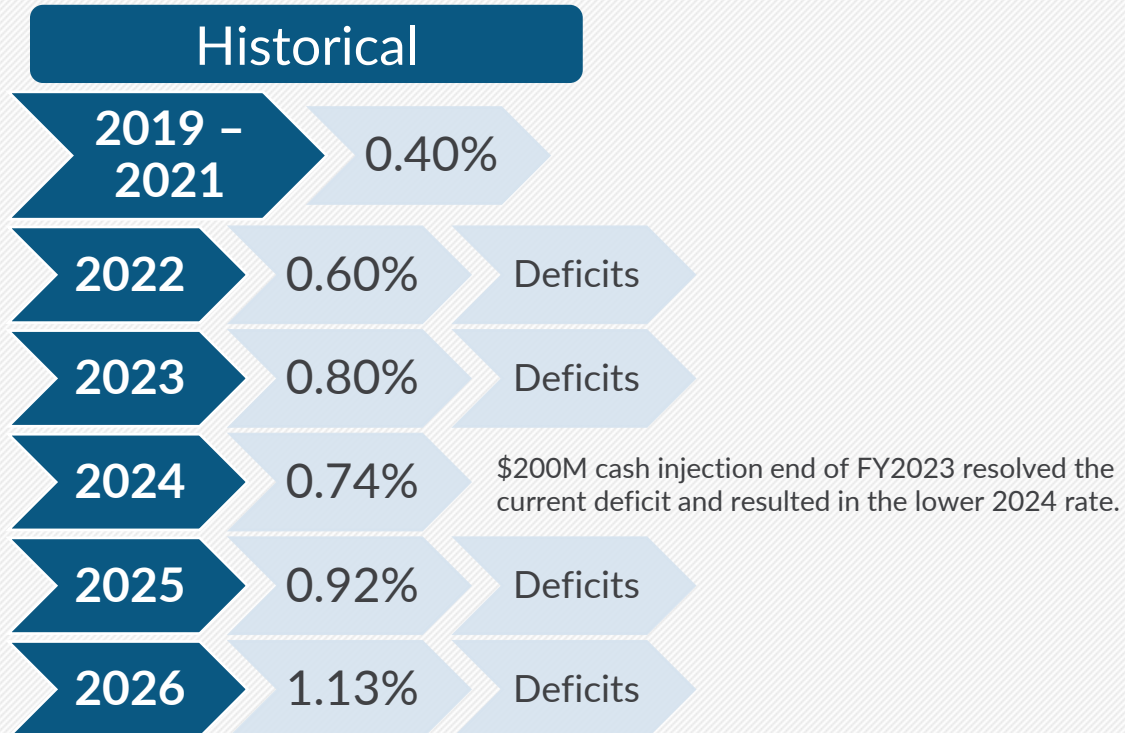
- Original and updated premium calculation methods were 'backward looking' and did not adequately support the growth of the program.
- Previous legislative changes from the Paid Leave Task Force provided short-term relief for the program but did not address the long-term financial concerns.

Legislature established the Office of Actuarial Services within Employment Security to support the program in response to the financial condition.

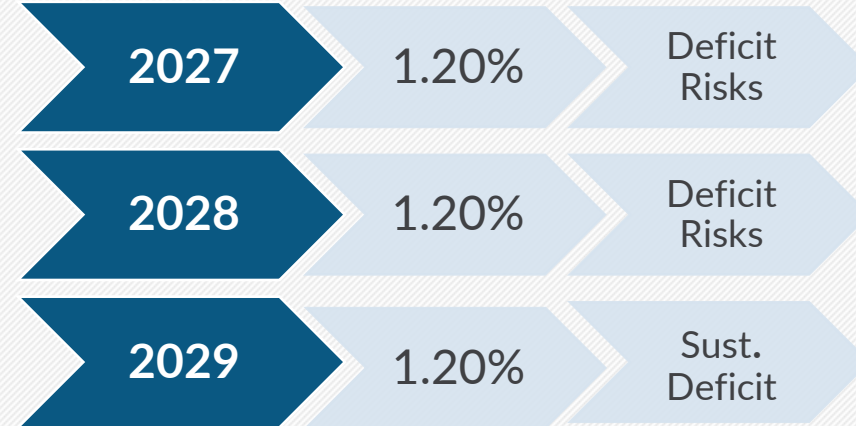
Premium rate history



Historical



Projection, as of FY2025 Report



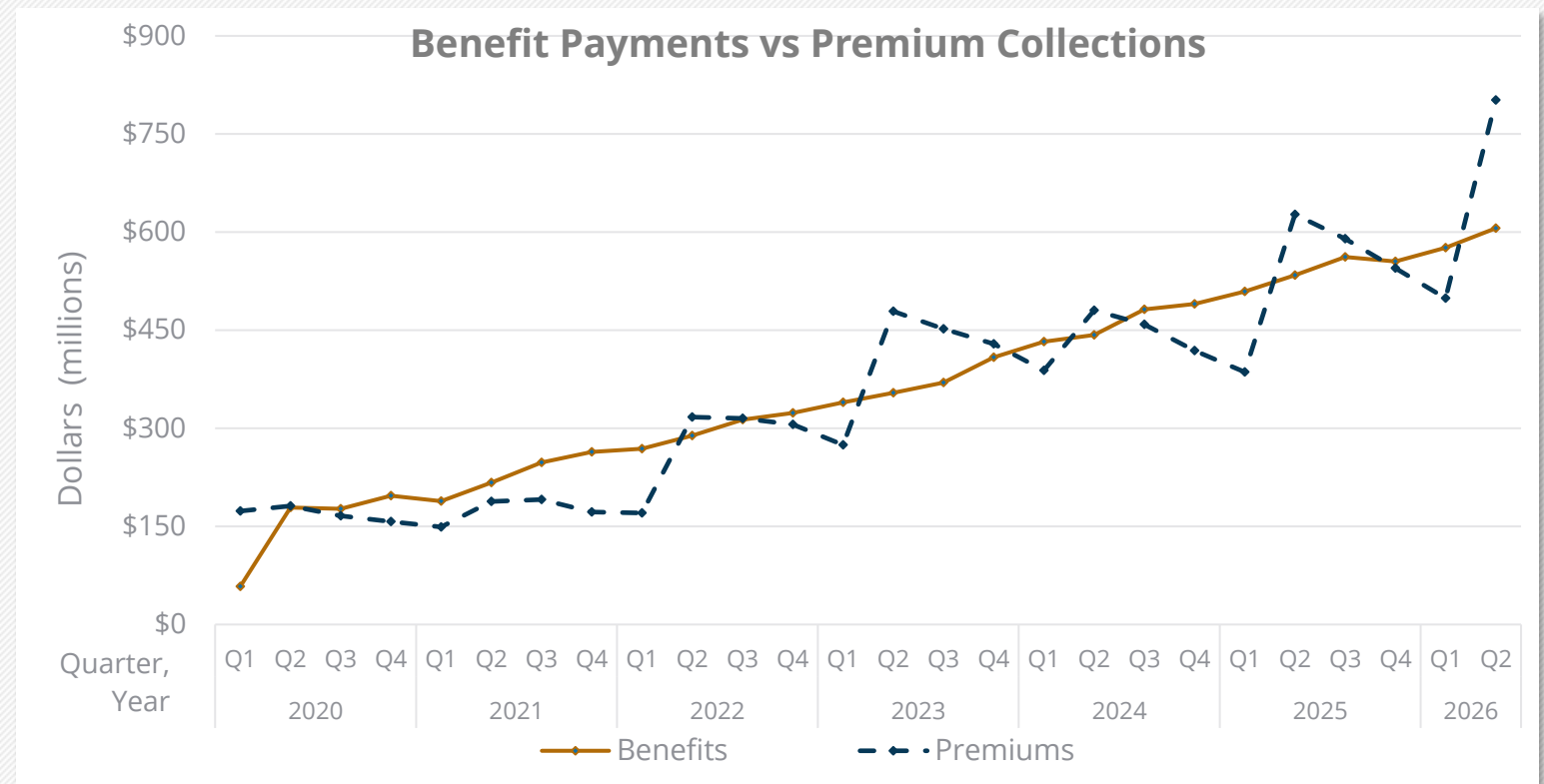
- 2027+ premium rates are projected to be limited to by the maximum premium rate of 1.20%.
- This results in inadequate premiums for future expenses and a **sustained deficit in 2029**.

Current financial conditions



Funding Cycles

- Premiums (dotted line in graph) are collected quarterly while benefits are paid daily.
- Quarterly revenue diminishes over time as more workers reach social security wage cap.
- Benefits (solid line in graph) have slowed but continue to grow at high rates (FY26 ~ 14%).

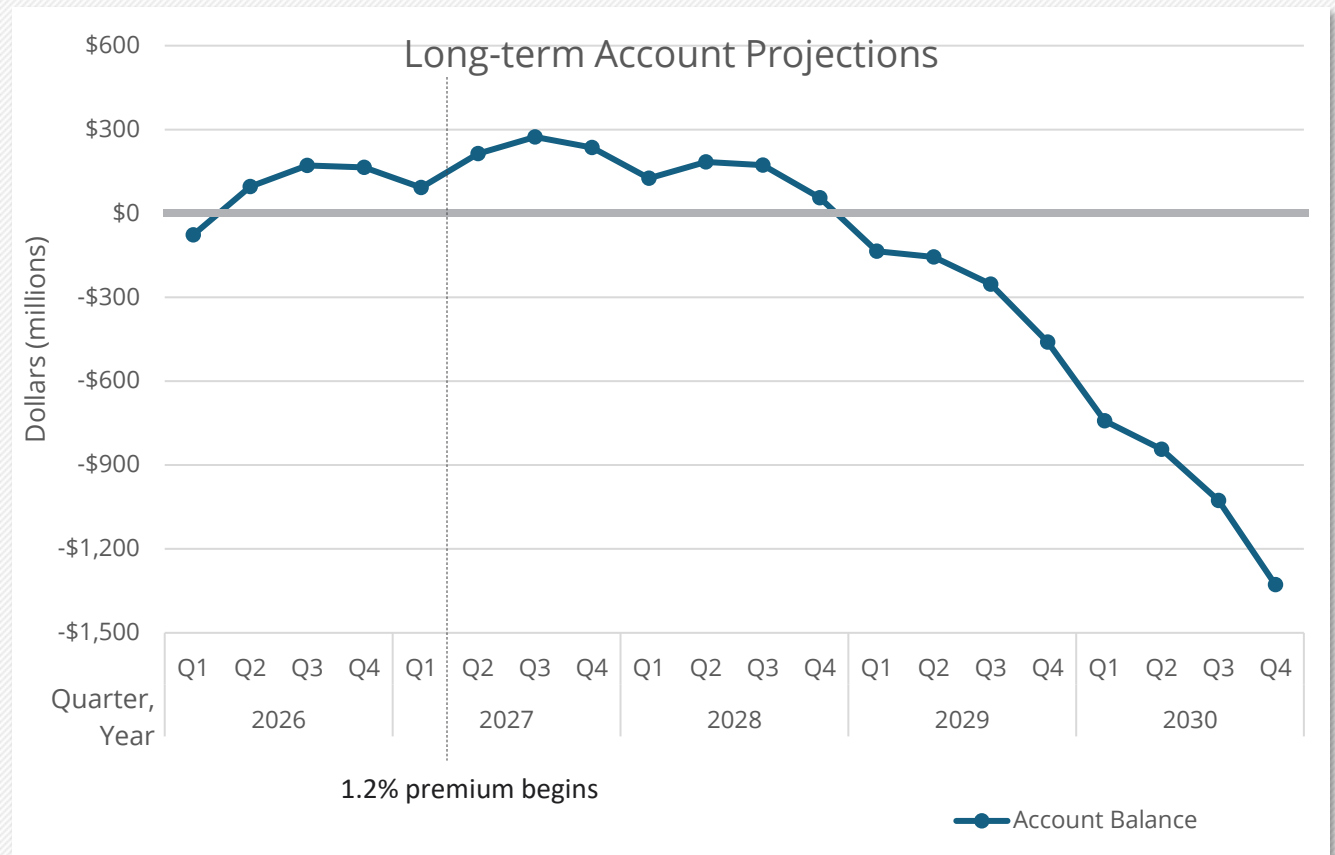


Current financial conditions



Long-term projections

- The lack of financial reserves, inadequate rate structure, and the misalignment of premium collection and benefit payments, creates periods of short-term deficits
- Program will hit 1.2% cap in 2027, limiting premium revenue, and by 2029, transition from short-term to long-term deficits.



Key takeaways



- Program outlook
 - Short-term deficit cycles persist due to **benefit expenses outgrowing premium revenue**
 - Premium rate at 1.13% in 2026 and expect to **hit rate cap of 1.2% from 2027 and beyond**
 - Short-term deficits will turn into **sustained deficit in 2029** as premium stops growing with claims
- Actuarial projection
 - Historical account balance projections have stayed **within 4% of annual benefit payout**
 - FY25 projections assume
 - **decreases in the growth rate of claims over time but continue to see 10% annual growth**
 - slightly lower employee and wage growth
 - small impact from legislative changes

Economic impact: 1.2% to 1.4%



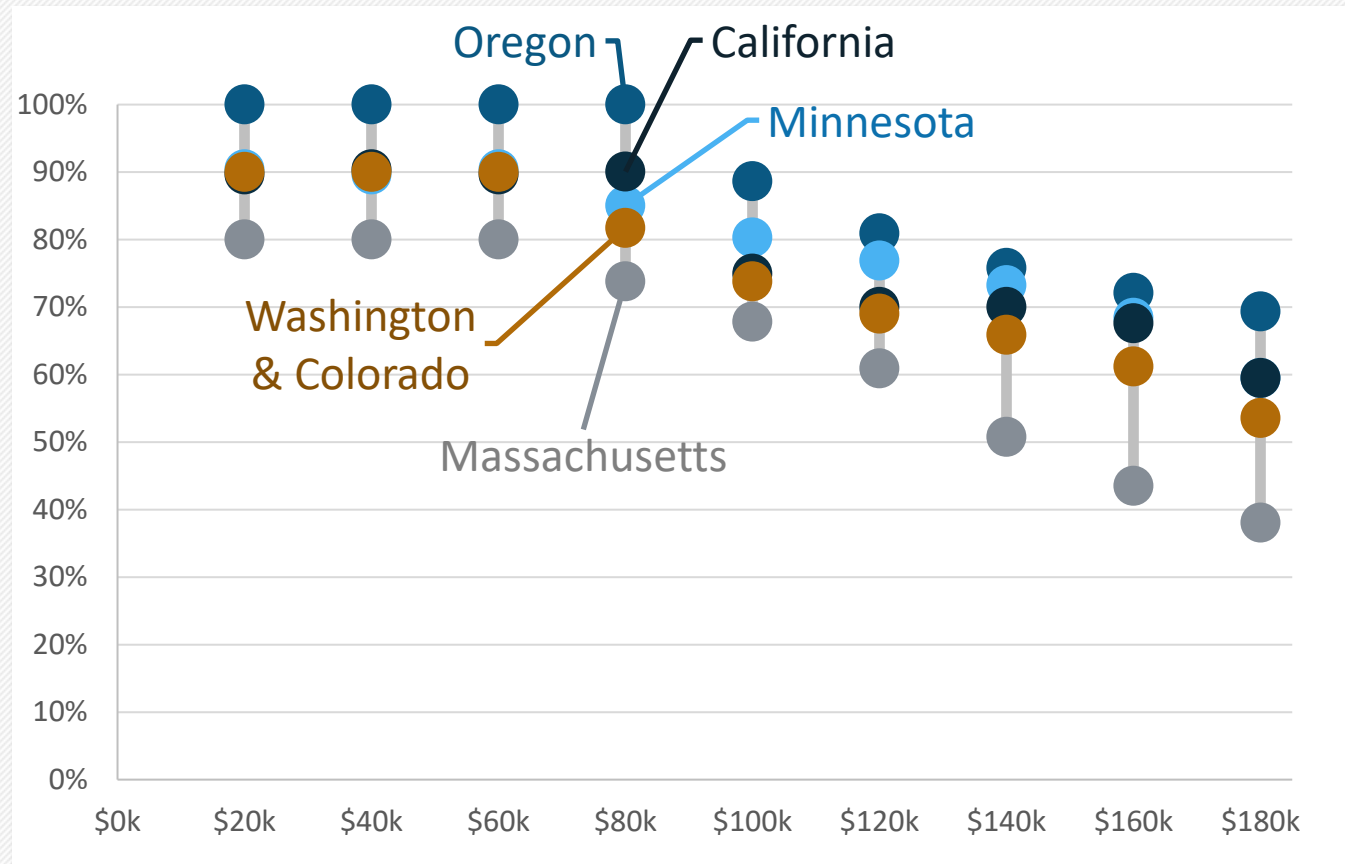
Employer Premium Contribution			
Employer Size (estimated taxable payroll)	Annual Premium 1.2%	Annual Premium 1.4%	Annual Premium Increase
Small <50 (\$125,000)	\$430	\$500	+\$70
Medium 51-250 (\$3,850,000)	\$13,200	\$15,200	+\$2,000
Large +250 (\$17,200,000)	\$59,000	\$68,500	+\$9,500

Employers will see an additional ~\$600 in annual premiums per \$1 million in payroll

Worker Premium Contribution				
Annual Income	Annual Premium 1.2%	Annual Premium 1.4%	Annual Premium Increase	Top 3 Employing Industries in WA
\$35,000	\$300	\$350	+\$50	Food Service and Drinking Places (3)
\$85,000	\$730	\$750	+\$120	Government (1)
\$150,000	\$1,290	\$1,500	\$220	Professional, Scientific, and Technical Services (2)

Employees will see an additional \$2 per for every \$1,000 in wages

Review of peer states – wage replacement rates



Review of peer states - funding mechanisms



State	Premium Rate	Contributions	Wage Base	Reserve
Washington	- From <u>2021-2028</u>: Statutory formula 40% growth/reserve factor <u>2029+</u>: Set by ESD actuary 1.2% cap	Employers (~29%) and employees (~71%) based on family and medical claims.	Social Security	4-month target (begins building in 2029)
California	- Statutory formula with 30% growth/reserve factor from previous year 1.5% cap, (only +/- 0.02pp per year)	100% employee funded	No cap	Rate calculation has 30% buffer to expenses.
Colorado	- Statutory formula with 35% growth/reserve factor 1.2% cap	Split 50/50	Social Security	Targets 6-months' worth of program expenditures.
Massachusetts	- Director sets rate to sustain target reserve 0.75% cap	- Employers (~42%) and employees (~58%) based on family and medical claims. - Based on employer size	Social Security	Fund must maintain 140% of prior year's expenses
Minnesota	- Set in partnership with independent actuary 1.10% cap	Split 50/50	Social Security	25% of total program expenditures
Oregon	- Director sets rate to sustain target reserve 1.00% cap	60% employee and 40% employer	Social Security	6 months of expenditures

Review of peer states - benefit structure



State	Weekly Benefit	Max Benefit	Leave available	
Washington	Two-tier blended formula: 90% of wages up to 50% of SAWW + 50% of wages above 50% of SAWW	90% of SAWW	Medical:	12 weeks
			Family:	12 weeks
			Combined:	16 weeks (18 w/ pregnancy complications)
California	Tier-select formula: - If wages $\leq$ 70% of SAWW = 90% replacement - If wages $>$ 70% of SAWW = 70% replacement	100% of the SAWW	Medical:	52 weeks
			Family:	8 weeks
			Combined:	No combined cap
Colorado	Two-tier blended formula: 90% of wages up to 50% of SAWW + 50% of wages above 50% of SAWW	90% of the SAWW	Medical:	12 weeks
			Family:	12 weeks
			Combined:	12 weeks (16 w/ pregnancy complications)
Massachusetts	Two-tier blended formula: 80% of wages up to 50% of SAWW + 50% of wages above 50% of SAWW	64% of the SAWW	Medical:	20 weeks
			Family:	12 weeks family
			Combined:	26 weeks combined
Minnesota	Three-tier blended formula: 90% of wages up to 50% of SAWW +66% of wages from 50% to 100% of SAWW + 55% of wages above SAWW	100% of the SAWW	Medical:	12 weeks
			Family:	12 weeks
			Combined:	20 weeks
Oregon	Two-tier blended formula: 100% of wages up to 65% of SAWW + 50% of wages above 65% of SAWW	120% of the SAWW	Medical:	12 weeks
			Family:	12 weeks
			Combined:	24 weeks

Review of peer states – program design



State	Small Business Exemption	Voluntary Plans	Eligibility	Solvency Protection
Washington	Fewer than 50 employees	\$250 for the initial application with no ongoing fees.	Worked 820 hours	None
California	N/A	Annual assessment fee of 14% of the contribution rate	Earned at least \$300	Rate can be adjusted by no more than 0.1% (not to exceed cap)
Colorado	Fewer than 10 employees	- Initial \$500 application fee - Annual fee set equal to the cost of administering private plans.	Earned at least \$2,500	None
Massachusetts	Fewer than 25 employees	\$100 initial application fee \$50 annual renewal fee.	Earned at least 30 times the weekly benefit amount ~ \$3000 - \$6000	The rate may be adjusted to maintain 140% of the prior year's expenses.
Minnesota	- Fewer than 30 employees - Pay an average wage of no more than 150% of the state average wage.	\$250 for employers with fewer than 50 employees; \$500 for employees with 50 to 499 employees; or \$1,000 for employers with 500 or more employees.	- Must work 50% of time in MN - Earned at least 5.3% of the SAAW in wages	None
Oregon	Fewer than 25 employees	\$250 application fee renews every three years or whenever their plan changes.	Earned at least \$1,000	Reduce the max weekly benefit, weekly benefit amount, or weeks of leave available.

Paid Leave Program Integrity



Program integrity



Program integrity is a coordinated system of safeguards, laws, rules, policies, and procedures that ensure program operate lawfully, accurately, equitably, transparently, and responsibly. All federal, state, and agency requirements are met and the public interest

- Eligibility integrity
- Payment integrity
- Fraud prevention and detection
- Compliance, risk management, and regulatory oversight
- Monitoring, auditing, and quality control

Program integrity – Best practices



- Medical certification controls
- Wage reporting and crossmatching
 - Child support withholding
 - Federal income taxes withholding
- Employer compliance framework
 - Employer conference and conciliation, and collections
- Employer penalties and interest
 - Overlapping benefits prevention and detection
 - Claim crossmatching unemployment insurance and Labor & Industry
- Fraud detection and prevention
- Overpayment recovery
 - Benefit overpayments
 - Disqualifications, overpayment penalties and interest
- Transparent appeals and due process
- Public reporting and transparency

Next steps



September-October

- Actuarial model of scenarios from menu of policy options
- Finish drafting the report
- Advisory comments/responses
- Present progress of report to legislative committees: LAWS and Appropriations

November-December

- Publish report: Nov 1
- Present findings:
 - Actuarial scenario results
 - Impacts to Washington workers in top 10 employing sectors
 - Impacts to small, medium, and large employers
 - Potential recommendations
 - Program integrity findings

Any questions



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Appendix



Actuarial projection variance



- The projection variance within 4% of annual benefit payout
- The projection variance within 1~2 weeks benefit payout
- The projection aligns well with the actual up to 24-month forward

(\$M)		FY2023 projection & projection variance		FY2024 projection & projection variance		FY2025 projection & projection variance	
Account balance	Actual	Projected	Variance	Projected	Variance	Projected	Variance
2023Q4	\$284	\$272	-\$12				
2024Q1	\$222	\$224	+\$2				
2024Q2	\$237	\$216	-\$21				
2024Q3	\$209	\$169	-\$40				
2024Q4	\$115	\$114	-\$1	\$101	-\$14		
2025Q1	-\$19	\$21	+\$40	-\$48	-\$29		
2025Q2	\$57	\$122	+\$65	-\$5	-\$62		
2025Q3	\$59			-\$9	-\$68		
2025Q4	\$17			-\$68	-\$85	-\$26	-\$43
2026Q1	-\$77			-\$173	-\$96	-\$162	-\$85