

Family Leave Insurance

Comparison of Costs

October 2007



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Executive Summary

At the request of the Joint Legislative Task Force on Family Leave Insurance, the Departments of Labor and Industries (L&I) and Employment Security (ESD) have prepared a fiscal analysis of the Family Leave Insurance program¹ (E2SSB 5659), including start up costs, administrative costs, and projected benefit payouts.

Start-Up (Implementation) Challenges

The departments identified obstacles that the agencies will face (either collectively or individually) in implementing the Family Leave Insurance program. The two most significant obstacles are the effective date and the funding source.

- **Effective date:** The effective date of October 1, 2009² for payment of Family Leave Insurance benefits is an obstacle for both agencies. The technology applications required to implement the new program will require a longer period of time to develop, test and implement. There are concerns by both L&I and ESD that the time frames are too short to implement the technology applications needed to support the new Family Leave Insurance program. L&I estimates 24 months to implement the basic system; ESD estimates that the project will take at least 22 months to implement the basic system. **Based on these timelines, neither agency could implement a fully functional automated system by October 2009.**
- **Funding source:** The funding source for the Family Leave Insurance program has not been decided.³ This is a barrier for both agencies. The assumptions by L&I and ESD do not include premium collection. If ESD were required to collect a FLI-associated premium in conjunction with ESD's current taxing process, there are three significant concerns: federal cost-sharing requirements; collection of taxes from employers currently not required to contribute to the Unemployment Insurance trust fund (exempt and cost reimbursable employers); and, the use of a tax ceiling other than ESD's taxable wage base.

L&I has similar concerns with the need to collect from employers who are not required to contribute to the workers' compensation funds, and with the additional system development work that would be needed to collect premiums. Premium notices and account management processes would be separate from workers' compensation. If the Legislature ultimately decides to fund the Family Leave Insurance program by collecting premiums, the technology to collect the premiums will likely not be completed within the time frame required by either agency.

California's Paid Family Leave Insurance Program⁴

In determining fiscal assumptions for the Family Leave Insurance program, both departments looked to California, which has a paid family leave insurance program. Legislation creating California's Paid Family Leave Insurance Program was enacted in 2002 and the program began offering insurance benefits July 1, 2004. The program is a component of California's long-running

¹ Chapter 357, Laws of 2007.

² E2SSB 5659, Section 5.

³ E2SSB 5659, Section 2 states the task force shall determine the manner in which the costs should be financed.

⁴ <http://www.edd.ca.gov/fleclaimpfl.htm>

State Disability Insurance program, administered by the state's Employment Development Department.

The program provides participants up to six weeks of benefits that may be paid over a 12-month period. Benefits may be used by both parents to take time off to bond with a newborn baby or adopted or foster child. Benefits may also be used to take time to care for a seriously ill parent, child, spouse or registered domestic partner. The Paid Family Leave Program is funded by a payroll tax, collected along with the payroll tax funding the State Disability Insurance Program. The program covers the estimated 13 million California workers who are covered by the State Disability Insurance program. The State Disability Insurance Program also covers pregnancy and provides for benefits during the period after a child is born, so that a pregnant mother often takes Paid Family Leave after taking four weeks or more of disability leave after her child is born.

The California program faced some information technology (IT) challenges in establishing their program.⁵ It cost California \$25 million in IT implementation costs. The new program lost six months of implementation time due to procurement issues. Additional legislation required unexpected changes to the program requiring a new form and weekly benefit determination mid-process. The program was implemented on time, but system testing was inadequate, resulting in ongoing Paid Family Leave computer problems.

Comparative Costs

Both agencies prepared a fiscal analysis to implement and administer the Family Leave Insurance program using the following four categories:

- **Benefit costs:** The departments have the same assumptions for benefit costs. L&I staff provided actuarial analysis behind benefit costs, based in large part by looking to California to build assumptions about claim volumes. ESD reviewed the work that L&I had done and provided input. The benefit costs section includes detailed information about the average number of weeks claimed (for females and males), the average number of weeks eligible recipients will claim, the average weekly benefit amount, the number of eligible and qualified applicants, and the take up rate.
- **Start-up costs:** The implementation costs assumed by both departments include start-up costs and initial information technology (IT) costs, and also the costs associated with a public outreach campaign. Both departments considered the requirements of the legislation and the California model. ESD has some existing technology and is able to use more of their existing IT staff whereas L&I would need to use more contractors.
- **Operational costs:** The operational costs assumed by both departments include the costs associated with claims administration, appeals, fraud/collections, and enforcement.
- **Information Technology:** Along with initial information technology costs due to implementation efforts, both departments assumed ongoing costs related to IT systems and services.

Cost Estimates

The cost estimates provided by the two departments differ. In reviewing the approaches taken by the Departments of Labor and Industries and Employment Security, there are a number of

⁵ Per conversations with California staff in Paid Family Leave program, and legislative staff; October 2007.

similarities and a number of differences, including the business workflow assumed by each department.

Similarities in Assumptions

- Claim volume⁶: both agencies used the same assumptions on claims volumes. L&I staff provided actuarial analysis behind caseload numbers based in large part by looking to California to build assumptions about claim volumes. ESD reviewed the work that L&I had done and provided input.
- Stand-alone programs: both L&I and ESD assumed the need to create new, stand-alone programs. Neither agency envisioned that this program could be simply incorporated into any existing program or information technology (IT) system.
- Business workflow⁷: both agencies built a process for administering family leave based, in part, on workflows and processes in their existing programs (workers' compensation for L&I; unemployment-insurance for ESD). *See section below for detailed information.*
- Timing: both agencies assumed similar timeframes to develop and implement the program. L&I's estimate to implement the program is 24 months; ESD's estimate is 22 months. As stated previously, **based on these timelines, neither agency could implement a fully functional automated system by October 2009.**

Differences in Assumptions

- Claims processing: while the basic workflow is similar, the types of technology and specific steps to process a claim differ between the two agencies therefore the two agencies used different assumptions about how the program could be implemented.
- Both agencies considered the requirements of the legislation and the California model; however, there are a number of business and technology drivers that account for the differences in investment costs:
 - The assumptions for ESD relied on project staff, augmented by contractors. The assumptions for L&I relied more on contractors, resulting in higher costs.
 - There is a different level of complexity in the L&I technical environment.
 - ESD utilizes a number of internal processes and technologies that L&I has to build.
 - L&I has to capture and store employer data that ESD already manages.
- Program Administration: the proposals from both L&I and ESD include adding information from the Family Leave Insurance program to their existing data warehouse, which would allow each agency to produce data and reports on how the program is functioning and who is utilizing the benefit.

ESD's claims adjudication model is based partly on the California FLI claim model, in which the claim is entered into the system via Optical Character Recognition (OCR), then it is "set up" by staff. The weekly claims filing are modeled after the unemployment insurance's IVR (Interactive Voice Response), which is an automated interactive telephone system.

⁶ See Appendix B for detailed chart of claim volumes.

⁷ See Appendix A for business workflow charts for both agencies.

Since L&I does not have the capability of IVR claim filing, L&I's claims adjudication model is based on the workers' compensation (WC) claim model. Paper claim forms are received, scanned for imaging and the claim information is keyed into the system by claims initiation staff. The imaged claim document is routed to the claim adjudicator and the new claim is assigned to the adjudicator's work queue screen. Claims adjudicators are responsible for contacting the applicant to obtain additional information, answer questions and explain the process, then make decisions regarding claim allowance and benefit payment.

Future View of Program: Short-term and Long-term Challenges

There are different challenges resulting from a long-term view of the program verses a short-term view of what is initially needed to pay benefits under the law as written.

- Scope of Program: both L&I and ESD have concerns about the possibility of expanding the scope of the new Family Leave Insurance program. The estimates provided by each agency are based on the legislation as passed, which limits the scope of the new program to leave taken for the birth of a child or for the adoption of a child. Regardless of which agency is selected, the program will be built on the assumption that Family Leave Insurance claims will be straight-forward, with no medical certification involved.

Neither agency is developing cost estimates that include assumptions for program expansion. Both agencies have concerns that changes made after the Family Leave Insurance program is implemented will result in redoing critical programming and will increase the cost of the development effort. If the scope of the Family Leave program is expanded to later include medical leave, new assumptions would be required.

- Cost of Living Adjustment: both agencies are assuming there will be no cost of living allowance and that the benefit structure will be a set weekly amount, with prorated benefits for intermittent leave and for individuals working less than 35 hours per week. If the benefit structure is changed to include cost of living allowances, additional technology will be required.

Potential Government Efficiencies

The departments examined the Family Leave Insurance legislation to identify changes in the legislation that could result in efficiencies and reduced operating costs. ESD and L&I jointly developed a number of ideas to increase efficiencies and reduce operating costs; however, at this time the departments are not supporting or recommending any specific changes. It is important to note that many of these changes would have policy implications that would need to be considered.

ESD's fiscal estimate includes detailed information regarding potential government efficiencies. L&I's list of potential government efficiencies is being produced separately from L&I's fiscal estimate.

Comparative Summary of Implementation Costs⁸

Labor and Industries		Employment Security	
Core Team	\$1,742,580	Core Team	\$1,412,000
Outreach (including FTEs)	\$ 855,987	Outreach (including FTE's)	\$ 892,000
Rule Making and Policy	\$ 109,000	Rule Making and Policy	\$ 238,000
Facilities	\$441,200	Facilities	\$ 559,000
IT Team	\$1,512,085	IT Team	\$2,390,000
Contractor programming	\$6,332,400	Contractors (project manager, programmer, imaging, fraud detection, collection)	\$2,525,000
Equipment and licenses	\$1,966,833	Equipment	\$ 1,139,000
QA Contractor	\$210,000	QA Contractor	\$ 210,000
Tele/Language Line	\$143,000		
Indirect	\$ 99,101	Indirect	\$606,000
L&I: Implementation costs	\$13,412,186	3 Year Implementation Costs	\$10.0 million

Comparative Summary of Annual Operating Costs⁹

Labor and Industries	FY13	Employment Security	FY13
Claims Initiation/Weekly Claims Adjudication	\$1,946,186	Claims Initiation/Weekly Claims Adjudication	\$2,302,000
Appeals, AG costs, Atty fees	\$2,417,920	Appeals, AG Costs, Atty fees	\$2,418,000
Outreach	\$329,208	Outreach	\$348,000
Fraud and Collections	\$81,591	Fraud and Collections	\$166,000
Enforcement	\$489,411	Enforcement	\$489,000
Total:	\$5.3 million	Total:	\$5.7 million

Ongoing Support (including IT)

IT support with FTEs included	\$1,117,738	IT support with FTEs included	\$1,059,000
Facilities	\$ 220,600	Facilities	\$ 233,000
Mailing Room Staff	\$55,887	Printing and mailing	\$229,000
Telecommunications/Language Line	\$ 143,000	Telecommunications/Language Line	\$172,000
Annual cost of warrants	\$281,000	Annual cost of warrants	\$ 116,000
Mailing of warrants	Included above	Mailing of warrants	\$ 198,000
Indirect costs	\$272,622	Indirect costs ¹⁰	388,000
Ongoing Support (including IT)	\$2.1 million	Ongoing Support (including IT)	\$2.4 million

Total Annual Ongoing Costs

Labor and Industries	\$7,429,048	Employment Security	\$8,117,000
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⁸ Costs represent amounts for implementation for Calendar Years 2008-2010.

⁹ Based on Fiscal Year 2013 estimates.

¹⁰ Indirect costs refer to 20.09 percent of salary base.

Introduction

At the request of the Joint Legislative Task Force on Family Leave Insurance, the departments of Labor and Industries (L&I) and Employment Security (ESD) have prepared a fiscal analysis of the Family Leave Insurance program¹¹ (E2SSB 5659), including start-up costs, administrative costs, and projected benefit payouts. The cost estimates have some significant differences. This paper will highlight these differences and explain the agencies' assumptions.

This report summarizes the underlying legislation, details the fiscal assumptions and costs for both departments, describes implementation challenges, and includes potential changes that would ease administrative and implementation challenges.

Bill Summary

Engrossed Second Substitute Senate Bill (E2SSB) 5659 established a Family Leave Insurance program that provides a partial wage replacement benefit that allows parents to bond with a newborn or newly-adopted child. The new program, which is scheduled to begin October 1, 2009, provides a maximum benefit of \$250 per week, for up to five weeks (after a seven-day waiting period) for qualified workers. The bill includes employment protection for qualified workers of employers with more than 25 employees. Employers of individuals not covered by the Family Leave Insurance program and self-employed persons may elect coverage.

The legislation that created the Family Leave Insurance Account allows the State Investment Board to invest excess funds, and amends RCW 43.79A.040 to allow the Family Leave Insurance Account to receive its share of investment earnings.

The legislation also established a 13-member joint legislative task force to study how the Family Leave Insurance program should be financed, implemented and administered; identify any government efficiencies that should be adopted to improve program administration and reduce program costs; and study the impacts of the family leave insurance program on the unemployment-compensation program and options to mitigate the impacts. The task force will recommend which state agency should be responsible for implementing and administering the Family Leave Insurance program and how the new insurance program will be funded.

Start-Up (Implementation) Challenges

The departments identified and discussed obstacles that the agencies will face (either collectively or individually) in implementing the Family Leave Insurance program. The two most significant obstacles are the effective date and the funding source.

- Effective date: The effective date of October 1, 2009¹² for payment of Family Leave Insurance benefits is an obstacle for both agencies. The technology applications required to implement the new program will require a longer period of time to develop, test and

¹¹ Chapter 357, Laws of 2007.

¹² E2SSB 5659, Section 5.

implement. There are concerns by both L&I and ESD that the time frames are too short to implement the technology applications needed to support the new Family Leave Insurance program. L&I estimates 24 months to implement the basic system; ESD estimates that the project will take at least 22 months to implement the basic system.

- **Funding source:** The funding source for the Family Leave Insurance program has not been decided.¹³ This is a barrier for both agencies. The assumptions by L&I and ESD do not include premium collection. If ESD were required to collect a FLI associated premium in conjunction with ESD's current taxing process, there are three significant concerns: federal cost sharing requirements; collection of taxes from employers currently not required to contribute to the Unemployment Insurance trust fund (exempt and cost reimbursable employers); and, the use of a tax ceiling other than ESD's taxable wage base.

L&I has similar concerns with the need to collect from employers who are not required to contribute to the workers' compensation funds, and with the additional system development work that would be needed to collect premiums. Premium notices and account management processes would be separate from workers' compensation. If the Legislature ultimately decides to fund the Family Leave Insurance program by collecting premiums, the technology to collect the premiums will likely not be completed within the time frame required.

California's Paid Family Leave Insurance Program

In determining fiscal assumptions for the Family Leave Insurance program, both departments looked to California, which has a paid family leave insurance program. Legislation creating California's Paid Family Leave Insurance Program was enacted in 2002 and the program began offering insurance benefits July 1, 2004. The program is a component of California's long-running State Disability Insurance program, administered by the state's Employment Development Department.

The program provides participants up to six weeks of benefits that may be paid over a 12-month period. Benefits may be used by both parents to take time off to bond with a newborn baby or adopted or foster child. Benefits may also be used to take time to care for a seriously ill parent, child, spouse or registered domestic partner.

The Paid Family Leave Program is funded by a payroll tax, collected along with the payroll tax funding the State Disability Insurance Program. The program covers the estimated 13 million California workers who are covered by the State Disability Insurance program.

The California program faced some information technology (IT) challenges in establishing their program. It cost California \$25 million in IT implementation costs. The new program lost six months of implementation time due to procurement issues. Additional legislation required unexpected changes to the program requiring a new form and weekly benefit determination mid-process. The program was implemented on time, but system testing was inadequate, resulting in ongoing Paid Family Leave computer problems.

Differences in Approach: Employment Security Department, Labor and Industries

¹³ E2SSB 5659, Section 2 states the task force shall determine the manner in which the costs should be financed.

The cost estimates provided by the two departments differ. In reviewing the approaches taken by the Departments of Labor and Industries (L&I) and Employment Security (ESD), there are a number of similarities and a number of differences, including the business workflow assumed by each department.

Similarities in Assumptions

- Claim volume¹⁴: both agencies used the same assumptions on claims volumes. L&I staff provided actuarial analysis behind caseload numbers based in large part by looking to California to build assumptions about claim volumes. ESD reviewed L&I's actuarial analysis and provided input.
- Stand-alone programs: both L&I and ESD assumed the need to create new, stand-alone programs. Neither agency envisioned that this program could be simply incorporated into any existing program or information technology (IT) system.
- Business workflow: both agencies built a process for administering family leave based, in part, on workflows and processes in their current programs (workers' compensation for L&I; unemployment-insurance for ESD). *See section below for detailed information.*
- Timing: both agencies assumed similar timeframes to develop and implement the program. L&I's estimate to implement the program is 24 months; ESD's estimate is 22 months.
Based on these timelines, neither agency could implement a fully functional automated system by October 2009.

Differences in Assumptions

- Claims processing: while the basic workflow is similar, the types of technology and specific steps to process a claim differ between the two agencies; therefore, the two agencies used different assumptions about how the program could be implemented.
- Information Technology: both agencies considered the requirements of the legislation and the California model; however, there are a number of business and technology drivers that account for the differences in investment costs:
 - The assumptions for ESD relied on project staff, augmented by contractors. The assumptions for L&I relied more on contractors, resulting in higher costs.
 - There is a different level of complexity in the L&I technical environment.
 - ESD utilizes a number of internal processes and technologies that L&I has to build.
 - L&I has to capture and store employer data that ESD already manages.
- Program Administration: the proposals from both L&I and ESD include adding information from the Family Leave Insurance program to their existing data warehouses, which would allow each agency to produce data and reports on how the program is functioning and who is utilizing the benefit.

ESD's claims adjudication model is to enter the claim into the system via Optical Character Recognition (OCR), then it is "set up" by staff who will contact the applicant, obtain additional information, explain the process, etc. The claim allowance and benefit payment

¹⁴ See Appendix D for detailed chart of claim volumes.

decisions are made by claims specialists. Weekly claims are filed via the Interactive Voice Response (IVR), which is an automated interactive telephone system.

Since L&I does not have the capability of IVR claim filing, L&I's claims adjudication model is based on the worker's compensation (WC) claim model. Paper claim forms are received, scanned for imaging and the claim information is keyed into the system by Claims Initiation staff. The imaged claim document is routed to the claim adjudicator and the new claim is assigned to the adjudicator's work queue screen. Claims adjudicators are responsible for contacting the applicant to obtain additional information, answer questions, explain the process, and make decisions regarding claim allowance and benefit payment.

Business Workflow Comparison

- Claims Initiation and Imaging: ESD and L&I envisioned the application process differently. While both agencies envisioned that a paper application would be completed by parents, ESD planned to receive the application in the mail, e-form, or a web-based application and then route it directly to be imaged and the data read off the form by Optical Character Reading (OCR) software. The data would be written directly to a claims database, an image of the application stored and routed to a "work queue" to be reviewed by a staff person in the FLI unit.

L&I also planned to have paper applications come to the agency, but the application would be data entered by claims initiation staff. After the data entry was completed, the document would be routed to imaging staff to be imaged and indexed. L&I does not currently use OCR technology in worker's compensation claims or other agency programs. L&I reviewed the OCR technology in the past and determined the technology was not cost-effective or accurate enough to handle their complex data entry applications. A similar number of staff still would be required to examine each form and correct OCR errors. The startup time and costs involved in proving and stabilizing this new technology would add additional risk to the project. Conversely, the existing claims initiation process is well-proven, accurate, and relatively quick to implement.

OCR technology is continuing to evolve and improve. L&I is considering looking into the feasibility of OCR technology as an option for some L&I applications. A feasibility study would be required to evaluate the efficacy of OCR technology in L&I business applications. If the feasibility study proves OCR to be efficient and effective, L&I would consider the feasibility of OCR for Family Leave Insurance claims. L&I would be unable to implement OCR by the effective date.

Both agencies envisioned using "Claims Specialists" to determine if an applicant is eligible for benefits. Both made an assumption that some type of documentation would be required along with the application to show a birth or adoption occurred. Both agencies also assumed that there would be mailings to the applicant and the employer once the claim was received and established, and that applicants would be instructed how to file claims for payment.

- Filing Weekly claims: L&I and ESD envisioned very different processes for filing weekly claims for payment of benefits. L&I assumed that claims for payment would be submitted on paper forms that would, like the application, be data entered by claims initiation staff and

then imaged by imaging staff. The electronic form would then be routed to the Specialists for authorization of the payment.

ESD would offer weekly claims filing by telephone using existing Interactive Voice Response technology. This would allow parents to call a toll-free 1-800 number and answer the claim questions by pressing the buttons on the telephone key pad. The data would be sent electronically to the claims processing system and, unless there were outstanding questions, an authorization for payment completed. While ESD would also offer paper claims, currently UI claimants file by telephone or internet 98 percent of the time.

The L&I business process requires staff to enter, image, determine eligibility and authorize payment. Once eligibility is established, ESD envisions most claims to be processed with no or little staff intervention. Both agencies chose the method that is currently used for payment authorization in their existing programs. L&I does not have the capability of filing claims using Interactive Voice Response (IVR) technology. Once eligibility is authorized, ESD expects to mail these checks in the same way as unemployment insurance checks.

L&I expects to transmit an electronic file to the State Treasurer, via DIS, where the warrants will be produced. The warrants will then be routed to the Consolidated Mail Service, who will deliver the warrants to L&I for mailing with the orders via the US Postal Service.

- Appeals: Applicants who are found ineligible may appeal the decision of ineligibility. Both agencies will process requests for appeals in a similar manner. Participants must submit a request for appeal in writing to the department. All records relating to the issue will be compiled and forwarded to the Office of Administrative Hearings. The departments assumed attorney fees and appeal costs, both of which are described later in this document. The form would then be routed to the Specialists for authorization of the payment.

Comparative Costs

This section includes the agencies' fiscal analyses to implement and administer the Family Leave Insurance program using the following four categories:

- Benefit costs: The departments have the same assumptions for benefit costs. L&I staff provided actuarial analysis behind benefit costs, based in large part by looking to California to build assumptions about claim volumes. ESD reviewed the work that L&I had done and provided input. The benefit costs assumptions include detailed information about the average number of weeks claimed (for females and males), the average number of weeks eligible recipients will claim, the average weekly benefit amount, the number of eligible and qualified applicants, and the take up rate.
- Start-up costs: The implementation costs assumed by both departments include start up costs such as initial information technology (IT) costs, and also the costs associated with a public outreach campaign. While both departments considered the requirements of the legislation and the California model, ESD would invest less money in IT systems.
- Operational costs: The operational costs assumed by both departments include the cost associated with appeals, fraud/collections, and enforcement.

- Information Technology: Along with initial information technology costs due to implementation efforts, both departments assumed ongoing costs related to IT systems and services.

Benefit Costs

Each agency planned and budgeted for benefit costs. L&I staff provided actuarial analysis behind caseload numbers based in large part by looking to California to build assumptions about claim volumes. ESD reviewed the work that L&I had done and provided input. The departments used the following assumptions related to benefit costs:

Item	Assumption ¹⁵
Average duration of family leave for claims filed by <u>female</u> parents	4.6 weeks ¹⁶
Average duration of family leave for claims filed by <u>male</u> parents	3.7 weeks
Average number of weeks eligible recipients will claim	4.21 weeks
Average weekly benefit	\$242.32
Eligible and qualified applicants	74,925
Take up rate – annual increase	8 percent ¹⁷

Estimated Claims Volumes, Claims Counts and Claims Benefit Costs

Using analysis and assumptions from Labor & Industries and relying on experience of the California program, the following claims and benefit payouts are estimated:

Base scenario¹⁸

	2010	2011	2012	2013	2014	2015
Births	92,441	94,114	95,705	97,380	98,880	99,866
Claim Counts	25,700	27,700	29,900	32,200	34,900	37,700
Percentage of Parents using the Program ¹⁹	27 %	29%	31%	33%	35%	37%
Benefit Outlays	\$31.3 M	\$33.7 M	\$36.6 M	39.4 M	\$42.6 M	\$46.1 M

¹⁵ Assumptions for benefit costs were used by both departments.

¹⁶ Claim duration benefits were based on California's weekly duration data, with the benefit limited to the 5 week Washington family leave insurance program. The estimated claim benefit costs assume no inflationary change in benefits, consistent with OFM policy for fiscal note development.

¹⁷ Eight percent is the growth rate anticipated per year growth in program participation each of the first six years. The takeup rate increases 8 percent per year from a first year rate of 68.058 percent.

¹⁸ Not included in the claims count are an additional twelve percent of claims which are assumed to be denied and therefore, not counted in the caseload assumptions throughout the documents.

¹⁹ These percentages represent total births in the state; a number of parents may not meet eligibility requirements (for example, a mother who has not been employed in the past year) and therefore, would not be eligible to receive family leave insurance benefits.

Start-Up Costs

Each agency planned and budgeted for a core team to implement the new Family Leave Insurance program. The teams are made of business analysts, information technology staff, project management staff and support staff. The chart below compares start-up costs. Costs represent total amounts for implementation for Calendar Years 2008 through 2010.

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
Core team to implement Family Leave Insurance program. <i>Note: these are <u>not</u> IT positions.</i>	FLI Manager Project staff support Project Leads UI Specialists 2, 3 and 6 WCA 4 (FLI Trainer) These costs represent only L&I's costs for the core project team through 09/30/2009 and do not include IT staff, outreach, or the permanent program staff FTEs. \$1,742,580	DAC-Project Manager \$ 239,000 WMS2-Asst Project Mgr \$ 145,000 PC ²⁰³ -Documentation Specialist \$ 140,000 PC3-Business Analyst \$ 396,000 PC3-Policy Analyst \$ 153,000 AA4 \$ 111,000 Trainer \$ 44,000 UI Staff \$184,000 \$1,412,000
Outreach	L&I budgeted for 4 FTEs: 2 CSS2s to answer FLI inquiry calls on the agency hotline 1 Graphic Designer 2 1 Communications Consultant 3 Outreach costs will also include \$345,000 for printing and mailing, translation, radio air time, unique computer equipment needs for the graphic designer, and translations \$ 855,987	ESD budgeted for 2 FTEs - a WMS and a Communications Consultant 5 @ \$246,000 and \$171,000 respectively for the three-year total cost; plus \$25,000 for travel, and \$450,000 for a media campaign. \$892,000
Policy Development	L&I did not budget additional hours for staff and managers in other programs to meet with project staff.	ESD budgeted 1.5 FTE of hours for program coordinator level staff to meet with the project team. Also, ESD budgeted for 0.09 FTE of the UI policy manager's time. o WMS2 \$10,000 o PC3 hours \$123,000 \$ 133,000
Rule Making	For rulemaking L&I budgeted: o \$69,000 for hearings o \$40,000 for printing materials o 1 Administrative Regulatory Analyst 2 for 21 months \$109,000	ESD budgeted the following for rule making: o WMS 2 \$100,000 o Printing/ mailing \$ 798 o Court reporter \$ 1,590 o Transcriptions \$ 2,025 o Travel \$ 750 \$ 105,000
Facilities	L&I assumed space for about 50 staff	ESD assumed space for about 40 staff.

²⁰ PC refers to a Program Coordinator.

	(FTEs and contract programmers). \$441,200	\$ 559,000								
Information Technology	<p>L&I estimated 86,844 hours²¹ of IT development.</p> <ul style="list-style-type: none"> • Integrated Document Management • Claims Management System: <ul style="list-style-type: none"> ▶ Benefit Payment System ▶ Appeals Tracking ▶ Claims Management/Adjudication ▶ Claims Overpayment/Collections/AR ▶ Prorated and Intermittent Leave • IRS Withholding • Elective Coverage Tracking • Data Warehouse (add FLI database) • Application Server Deployment <p>7 L&I project staff can complete 23,520 of these hours: \$1,512,085 The remaining 63,324 hours will be done by contract programmers at a cost of \$100 per hour. \$6,332,400 QA Contractor (1,200 hours @ \$175 per hour): \$210,000</p> <p>Equipment and Licenses \$1,966,833</p> <p style="text-align: right;">\$10,021,318</p>	<p>ESD estimated 60,111 hours of development effort.</p> <ul style="list-style-type: none"> • Internet continuing claims • OCR/imaging system • Claims Management System • IVR weekly claim filing • Appeals tracking • Fraud Management • Overpayment and Collections • IRS Withholding <p>Ten IT FTEs at peak would work on development during the project phase. ESD plans to use contractors for project management and supplemental development</p> <table style="width: 100%; border: none;"> <tr> <td>IT Team</td> <td style="text-align: right;">\$2,390,000</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">\$ 1,139,000</td> </tr> <tr> <td>Contractors</td> <td style="text-align: right;">\$2,525,000</td> </tr> <tr> <td>QA Contractor</td> <td style="text-align: right;">\$210,000</td> </tr> </table> <p>Total for IT \$6,264,000</p>	IT Team	\$2,390,000	Equipment	\$ 1,139,000	Contractors	\$2,525,000	QA Contractor	\$210,000
IT Team	\$2,390,000									
Equipment	\$ 1,139,000									
Contractors	\$2,525,000									
QA Contractor	\$210,000									
Language Line	\$143,000									
Indirect Costs	\$99,101	\$606,000								
Total Start Up Costs	L&I implementation costs thru 9/30/2009 \$13,412,186	\$9,972,000								

It is important to note that the agencies have some similarities and some differences in their IT assumptions:

²¹ L&I estimated some of the IT costs by evaluating the function points for certain components expected in the new system. Function points were used to estimate the hours required to develop the Claims System and the Integrated Document Management system, based on functionality and complexity. The components for Elected Coverage Tracking, Federal Income Tax Withholding, Data Warehouse Database, and Program Area System Application Server Deployment were estimated based on hours, not on function points.

Similarities in Information Technology (IT) Assumptions

- ESD and L&I estimated the hours needed for implementation by assessing only the basic requirements specifically identified in the legislation.

Significant Differences in Information Technology (IT) Assumptions

- As with all of its system development estimates, L&I uses a function-point model that takes into account complexity and risk of technology development. ESD's estimates were based on prior implementations of similar size and scope and using Program Evaluation and Review Technique (PERT) methodology.
- In some cases ESD already has computer systems that perform similar functions (such as the OCR for new claims, IVR for continuing claims, benefit payment system, and IRS withholding system). Where appropriate, ESD plans to replicate that functionality for the Family Leave Insurance system. For other elements of this effort both agencies would be building a system "from scratch."

Annual Operating costs

In determining operational costs, both agencies made an assumption that some type of documentation²² would be required along with the application and that any eligibility adjudications would be done by job classes similar to unemployment-insurance specialists. Both agencies also assumed that there would be mailings to the applicant and the employer once the case was established and that the applicant would be instructed how to file claims for payment.²³

ESD annual operating costs are based on Fiscal Year 2013 estimates.

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
Claims Initiation and Document Management System Entry	<p>The estimated FTE need for family and leave insurance claims initiation is based on the assumption that applications will be submitted on paper and data entered manually.</p> <p>The claims will require significantly less data entry time as the agency's current worker's compensation claims.</p> <p>After data entry the document would be routed to imaging staff to be imaged and indexed.</p>	<p>Estimated FTE need is based on the assumption that applicants can choose to apply using a paper application, a template that can be accessed via internet or via an automated internet application.</p> <p>Paper applications will be routed directly to be imaged and the data read off the form by Optical Character Reading (OCR) software. The data would be written directly to a claims database, an image of the application stored and routed to a "work queue."</p>
Staff completes the claim and adjudicates any eligibility issues.	<p>Once data entry and imaging occurred, the imaged claim form would be routed to an adjudicator and the adjudicator will access the claim from a work queue of new claims to determine eligibility, calculate benefits, and issue orders and correspondence. Adjudicators will contact the applicant directly if information is needed. Adjudicators will also respond directly to inquiries from applicants.</p> <p>L&I assumed that the number of claims denied would be 12 percent. This denial rate is similar to workers'</p>	<p>Staff in the FLI unit access the claim from the work queue and complete the application.</p> <p>ESD's assumptions on denied claims are similar to Labor and Industries.</p>

²² ESD assumes an initial application and some proof that a birth or adoption occurred.

²³ See Appendix A for detailed workflow information.

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
	compensation claims.	
Estimated annual cost of claims processing at full maturity	See below - costs are included with weekly claims.	See below - costs are included with weekly claims.

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
	Hearings (OAH) costs (the average hearing would cost \$484.)	Hearings (OAH) costs (the average hearing would cost \$484.)
Assistant Attorney General	<p>Both agencies assumed the same costs associated with AAG and appropriate support</p> <p>We also assumed that we would need an AAG representing the department on each of the appeals at OAH since, if the department were to lose the case, we could be faced with paying legal costs which could be more than five times the benefit amount owed to the claimant. We assumed that each AG would handle a workload of approximately 325 cases a year at a yearly cost of \$208,000. (\$17,300 a month per FTE). We also assumed that one paralegal from the AAG's staff, costing a total of \$96,000 a year would be permanently assigned to this task.</p> <p>Both agencies assumed attorney fees, which could be in excess of \$1 million.</p> <p style="text-align: right;">\$2,417,920</p>	<p>Both agencies assumed the same costs associated with AAG and appropriate support</p> <p>We also assumed that we would need an AAG representing the department on each of the appeals at OAH since, if the department were to lose the case, we could be faced with paying legal costs which could be more five times the benefit amount owed to the claimant. We assumed that each AG would handle a workload of approximately 325 cases a year at a yearly cost of \$208,000. (\$17,300 a month per FTE). We also assumed that one paralegal from the AAG's staff, costing a total of \$96,000 a year would be permanently assigned to this task.</p> <p>Both agencies assumed attorney fees, which could be in excess of \$1 million.</p> <p style="text-align: right;">Total Legal Costs = Appeals, AGs, Atty Fees = \$ 2,418,000</p>
On-going Outreach	Continue to fund 3 FTEs plus continued advertising. \$385,095 per year	1 FTE plus continued advertising. \$ 348,000 per year
Fraud Investigations and Collections	For the period Fiscal Year 2005 through December Fiscal Year 2007 the program conducted investigations of 3 percent of all workers' compensation claims. This is an average of	We estimate that half of 1 percent of the 25,000 applicants/cases will result in fraud (125 cases in a year) ESD will budget 1.0 FTE ESPC2 plus minimal supervision and

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
	<p>136 investigations per investigator per year. It is anticipated that the amount of cases referred for investigation would be approximately 0.50 percent of the allowable FLI claims. Using the number of allowable claims in the first year the program estimates a need for one Investigator 2 FTE.</p> <p>L&I anticipates approximately 125 fraud cases, with approximately 1,000 non-fraud cases.</p> <p style="text-align: right;">\$81,591 per year</p>	<p>support.</p> <p style="text-align: right;">\$166,000 per year</p>
Enforcement	<p>L&I assumes complaints will be of two types:</p> <ol style="list-style-type: none"> 1. Benefits not received as allowed under the law 2. Job discrimination – loss of job or demotion when family leave is used. <p>We assume 1.5 percent of the claims received will result in complaints, with an estimated 840 complaints in the first year, and an increase of 8 percent annually in direct proportion to the estimated claim volumes.</p> <p>Of the estimated complaints received, we assume 5 percent will result in citations (42 in the first year).</p> <p>We assume that 6 percent of the citations will result in appeals to OAH, with an estimated 5 appeals in the first year. The numbers of appeals are expected to increase by 8 percent annually.</p> <p>OAH hearing costs are estimated at \$12,500 in the first year and \$17,500 by the sixth year.</p>	<p>ESD does not currently have an employment-standards' enforcement function. Unemployment Insurance Tax staff audit employers for reporting and payment of taxes but not for complaints of discrimination, compliance with the Fair Labor Standards Act, Occupational Safety and Health Administration (OSHA) requirements, or the like. L&I's Employment Standards Program in the Specialty Compliance Services Division has this core competency. This fiscal assessment relies on L&I assumptions to estimate the cost of this program if implemented within ESD.</p>

Item	L&I Assumptions and Costs	ESD Assumptions and Costs
	<p>Court reporter costs are estimated at \$1,000 per day, with each appeal lasting one day, for a total of \$5,000 in the first year and \$7,000 by the sixth year.</p> <p>To handle the expected workload of 840 family leave complaints in the first year, with a proportional increase of 8 percent annually, the Employment Standards program will need five FTEs: two Industrial Relation Agent 2 (IRA2) and one Industrial Relations Agent 3 (IRA3) to handle complaints statewide. (The second IRA 2 will be added in the fifth year.) The IRA 3 will also participate in policy development, consultation with the field staff, training and outreach. Two Customer Service Specialist 2s (CSS2) are needed to assist in complaint intake, handling, and processing in headquarters and the field offices.</p>	
Total Enforcement costs per year	\$489,411	\$489,000

**Information Technology
Operational Costs**

Item	L&I Assumptions and Costs (annual)	ESD Assumptions and Costs²⁵ (annual)
Maintenance Staff	5 FTEs: ITS4 - 3 ITS3 – 2 \$508,488	3.75 FTEs: ITS6-Developer/DBA ITS4-Application Developer ITS4-Server Support ITS4-Data Warehouse \$404,000
Hardware and Software Maintenance	\$609,248	\$393,000
Fraud detection and collections	\$81,591	\$250,000
Data sharing/Transaction cost	L&I assumes there will be no additional cost for data sharing and that the existing data sharing agreement will include data sharing for the FLI program.	\$12,000
Total IT Maintenance	\$1,117,736	\$1,059,000

²⁵ ESD's and L&I's cost analysis does not consider collecting any premiums or taxes and is based on costs to provide the benefit portion of the program only. Existing systems will be used to obtain required verification data and processing for payments where possible. If either agency is required to collect premiums from employees or employers, either agency will need additional time to develop and implement a revenue collection process and IT system. L&I would also have to develop and implement an employer account system.

Comparative Summary of Implementation Costs²⁶

Labor and Industries		Employment Security	
Core Team	\$1,742,580	Core Team	\$1,412,000
Outreach (including FTEs)	\$ 855,987	Outreach (including FTE's)	\$ 892,000
Rule Making and Policy	\$ 109,000	Rule Making and Policy	\$ 238,000
Facilities	\$441,200	Facilities	\$ 559,000
IT Team	\$1,512,085	IT Team	\$2,390,000
Contractor programming	\$6,332,400	Contractors (project manager, programmer, imaging, fraud detection, collection)	\$2,525,000
Equipment and licenses	\$1,966,833	Equipment	\$ 1,139,000
QA Contractor	\$210,000	QA Contractor	\$ 210,000
Tele/Language Line	\$143,000		
Indirect	\$ 99,101	Indirect	\$606,000
L&I: Implementation costs	\$13,412,186	3 Year Implementation Costs	\$10.0 million

Comparative Summary of Annual Operating Costs²⁷

Labor and Industries	FY13	Employment Security	FY13
Claims Initiation/Weekly Claims Adjudication	\$1,946,186	Claims Initiation/Weekly Claims Adjudication	\$2,302,000
Appeals, AG costs, Atty fees	\$2,417,920	Appeals, AG Costs, Atty fees	\$2,418,000
Outreach	\$329,208	Outreach	\$348,000
Fraud and Collections	\$81,591	Fraud and Collections	\$166,000
Enforcement	\$489,411	Enforcement	\$489,000
Total:	\$5.3 million	Total:	\$5.7 million

Ongoing Support (including IT)

IT support with FTEs included	\$1,117,738	IT support with FTEs included	\$1,059,000
Facilities	\$ 220,600	Facilities	\$ 233,000
Mailing Room Staff	\$55,887	Printing and mailing	\$229,000
Telecommunications/Language Line	\$ 143,000	Telecommunications/Language Line	\$172,000
Annual cost of warrants	\$281,000	Annual cost of warrants	\$ 116,000
Mailing of warrants	Included above	Mailing of warrants	\$ 198,000
Indirect costs	\$272,622	Indirect costs ²⁸	388,000
Ongoing Support (including IT)	\$2.1 million	Ongoing Support (including IT)	\$2.4 million

Total Annual Ongoing Costs

Labor and Industries	\$7,429,048	Employment Security	\$8,117,000
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²⁶ Costs represent amounts for implementation for Calendar Years 2008-2010.

²⁷ Based on Fiscal Year 2013 estimates.

²⁸ Indirect costs refer to 20.09 percent of salary base.

Future View of Program: Short-term and Long-term Challenges

There are different challenges resulting from a long-term view of the program vs. a short-term view of simply doing what is initially needed to generate the benefit under the law as proposed.

- Scope of Program: both L&I and ESD have concerns about the possibility of expanding the scope of the new Family Leave Insurance program. The estimates provided by each agency are based on the legislation as passed, which limits the scope of the new program to leave taken for the birth of a child or for the adoption of a child. Regardless of which agency is selected, the program will be built on the assumption that Family Leave Insurance claims will be straight-forward, with no medical certification involved.

Neither agency is developing cost estimates that include assumptions for program expansion. Both agencies have concerns that changes made after the Family Leave Insurance program is implemented will result in redoing critical programming and will increase the cost of the development effort. If the scope of the Family Leave program is expanded to later include medical leave, new assumptions would be required.

- Cost of Living Adjustment: both agencies are assuming there will be no cost of living allowance and that the benefit structure will be a set weekly amount, with prorated benefits for intermittent leave and for individuals working less than 35 hours per week. If the benefit structure is changed to include cost of living allowances, additional technology will be required.

Potential Government Efficiencies

The departments examined the Family Leave Insurance legislation to identify changes in the legislation that could result in efficiencies and reduced operating costs. ESD and L&I jointly developed a number of ideas to increase efficiencies and reduce operating costs; however, at this time the departments are not supporting or recommending any specific changes. It is important to note that many of these changes would have policy implications that would need to be considered. *ESD's fiscal note includes detailed information regarding potential government efficiencies. L&I's list of potential government efficiencies will be provided separate from L&I's fiscal note.*

Appendix A

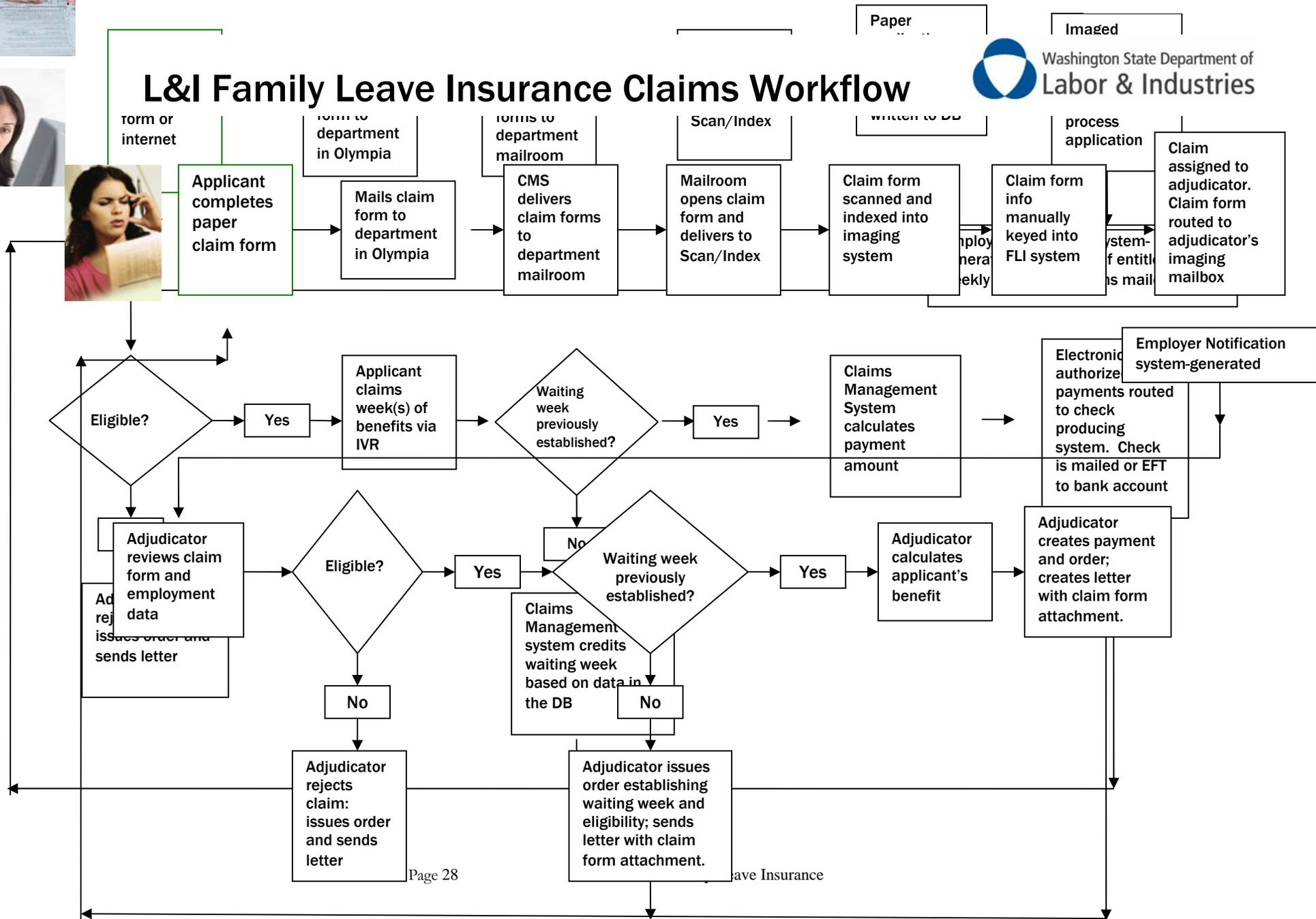
Business Workflow

- ESD Family Leave Insurance Claims Workflow
- L&I Family Leave Insurance Claims Workflo

ESD Family Leave Insurance Claims Workflow



L&I Family Leave Insurance Claims Workflow



**Appendix B
Benefit Costs**

Each agency planned and budgeted for benefit costs. L&I staff provided actuarial analysis behind caseload numbers based in large part by looking to California to build assumptions about claim volumes. ESD reviewed the work that L&I had done and provided input. The departments used the following assumptions related to benefit costs:

Item	Assumption²⁹
Average duration of family leave for claims filed by <u>female</u> parents	4.6 weeks ³⁰
Average duration of family leave for claims filed by <u>male</u> parents	3.7 weeks
Average number of weeks eligible recipients will claim	4.21 weeks
Average weekly benefit	\$242.32
Eligible and qualified applicants	74,925 ³¹
Take up rate – annual increase	8 percent ³²

Estimated Claims Volumes, Claims Counts and Claims Benefit Costs

Using analysis and assumptions from Labor & Industries and relying on experience of the California program, the following claims and benefit payouts are estimated:

Base scenario³³

	2010	2011	2012	2013	2014	2015
Births	92,441	94,114	95,705	97,380	98,880	99,866
Claim Counts	25,700	27,700	29,900	32,200	34,900	37,700
Percentage of Parents using the Program ³⁴	27 %	29%	31%	33%	35%	37%
Benefit Outlays	\$31.3 M	\$33.7 M	\$36.6 M	39.4 M	\$42.6 M	\$46.1 M

²⁹ Assumptions for benefit costs were used by both departments.

³⁰ Claim duration benefits were based on California’s weekly duration data, with the benefit limited to the 5 week Washington family leave insurance program. The estimated claim benefit costs assume no inflationary change in benefits, consistent with OFM policy for fiscal note development.

³¹ Assumptions for 2010.

³² Eight percent is the growth rate anticipated per year growth in program participation each of the first six years. The takeup rate increases 8 percent per year from a first year rate of 68.058 percent.

³³ Not included in the claims count are an additional twelve percent of claims which are assumed to be denied and therefore, not counted in the caseload assumptions throughout the documents.

³⁴ These percentages represent total births in the state; a number of parents may not meet eligibility requirements (for example, a mother who has not been employed in the past year) and therefore, would not be eligible to receive family leave insurance benefits.

