Paid Family and Medical Leave Program

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Legislative Auditor's conclusion:

Paid Family and Medical Leave program expenses are likely to continue exceeding revenues in future years. Changes to the rate formula could make the program more stable and promote financial sustainability.

Key points

- The Employment Security Department (ESD) has collected $4.5 billion in premiums and paid $4.2 billion in benefits on more than 700,000 claims through December 2023.
- The premium rate formula in statute does not produce enough revenue to cover program expenses.
- ESD forecasts the program will have a negative balance for portions of 2025 and 2026.
- JLARC's consulting actuary recommends using a forward-looking rate-setting approach and maintaining a financial reserve.
- ESD has implemented essential parts of the program. However, it needs to address project prioritization, employer audits, and customer service timeliness to meet best practices.

Executive summary

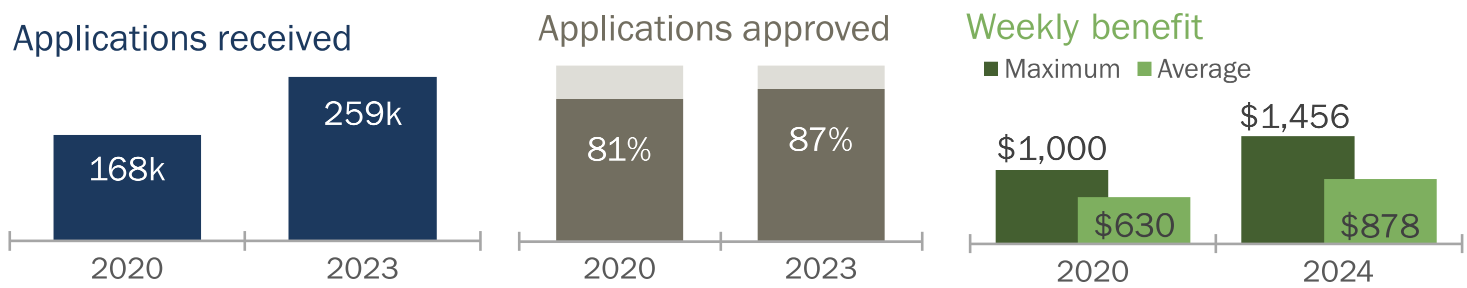
The 2017 Legislature created the Paid Family and Medical Leave (PFML) program (Title 50A RCW). The Employment Security Department (ESD) administers the program.

Washington's Paid Family and Medical Leave program offers paid time off to public and private employees

Employees can use leave when a serious health condition prevents them from working, to care for a family member, to bond with a new baby or child, or for certain military-related events. Leave is available to employees in Washington who have worked at least 820 hours in the past year.

- Eligible employees may claim up to 12 weeks of paid family or medical leave. Additional leave up to a maximum of 18 weeks may be available for employees who have more than one qualifying event in the same claim year.
- Benefit applications increased by an average of 15% each year, rising from 168,000 in 2020 to 259,000 in 2023. The percent of approved applications rose from 81% to 87%.
- Benefit payments are based on employee wages and the state's average weekly wage. The maximum weekly benefit for 2024 was $1,456 and the average was $878.
- ESD has paid $4.2 billion in benefits on over 700,000 approved applications.

Figure 1: Applications received, applications approved, and weekly benefits have increased



Source: JLARC staff analysis of ESD data.

PFML premiums are calculated based on a formula set in statute. Employees and employers pay premiums to fund the leave benefits. Employers apply the premium rate to each employee's gross wages, up to the Social Security cap ($168,600 in 2024). In 2024, for every $100 of gross wages, employees paid 53 cents in premiums, and employers paid 21 cents. Since 2019, ESD has collected $4.5 billion in premiums.

In October, ESD announced that the premium rate in 2025 will be 0.92%. The current rate is 0.74%.

The premium rate formula in statute does not produce enough revenue to cover program expenses

Since the program began paying benefits in 2020, annual expenses have exceeded premium collections in two out of four years. JLARC's consulting actuary, Spring Consulting Group (Spring Consulting) projects that expenses are likely to exceed revenues in three of the next five years (i.e., negative net income).

Figure 2: JLARC's consulting actuary projects PFML program expenses are likely to exceed revenue in three of the next five years

dollars in millions

	2020	2021	2022	2023	2024	2025 forecast	2026 forecast	2027 forecast	2028 forecast
Revenue	$678	$701	$1,109	$1,635	$1,750	$2,318	$2,348	$2,398	$2,560
Expenses	($665)	($959)	($1,258)	($1,538)	($1,846)	($2,014)	($2,203)	($2,408)	($2,629)
Net income	$13	($258)	($149)	$97	($96)	$304	$145	($10)	($69)

Source: JLARC staff analysis of state accounting data and Spring Consulting.

Negative net income reduces the PFML account's fund balance. Spring Consulting found that the PFML account fund balance has been low relative to expenses and actuarial best practices. In 2022 and 2023, the account fluctuated between negative and positive fund balances. In 2023, the Legislature transferred $200 million into the PFML account. This led to a positive balance and reduced the 2024 premium rate to 0.74%. The rate would have been 0.82% without the transfer. The lower rate contributes to ESD's current forecast that the fund balance will be negative beginning in March 2025. ESD expects negative balances will continue through much of 2025 and 2026.

JLARC's consulting actuary recommends a forward-looking rate-setting approach and maintaining a financial reserve

The current statutory rate formula relies solely on financial information from the previous year to set rates for the next year. The rates cannot reflect anticipated changes in program use or benefit payments. Actuarial best practices recommend incorporating trends in claim experience, potential future economic shifts, and demographic changes.

The current formula also includes a three-month reserve maximum (cap). This means that if the rate is likely to yield an account balance that is more than three months of expenses, ESD must reduce the rate. The cap can only adjust rates down. The formula does not have a reserve minimum (floor) or target. Without a reserve floor or target, there is no mechanism to increase rates to ensure a sufficient reserve.

In a November 2023 report, ESD recommended adopting an actuarial rate-setting approach. JLARC's actuarial consultant, Spring Consulting, concurs and makes two suggestions to improve the long-term stability of the PFML program:

1. Use a forward-looking rate-setting approach that is based on actuarial estimates of future revenues and benefit costs.
    - This approach can reduce rate volatility and incorporate long-term financial projections. Seven of nine state paid family and medical leave programs reviewed by JLARC staff use forward-looking approaches.
2. Maintain a financial reserve sufficient to cover shortfalls.
    - A reserve target or floor allows rates to move up or down to maintain the targeted balance. Washington is the only state to use a reserve cap for its paid family and medical leave program reserves.

ESD has yet to fully implement the PFML program. Its process for selecting projects should be more transparent.

After the Legislature established the program, ESD prioritized creating the technology and operational processes required to collect premiums and pay benefits. ESD successfully developed the core functions.

However, it has not implemented nine statutory requirements, including some that would automate processes and protect the state from overpaying benefits. The Legislature appropriated funds for additional staff and resources with the expectation that ESD will complete the remaining components by April 2026.

ESD has a formal process for prioritizing these and other technology projects. While it uses best practices such as monthly reviews, certain areas lack documented procedures and criteria. As a result, it is unclear how projects are prioritized and ranked for implementation.

ESD does not follow best practices for employer compliance audits

ESD audits employers to determine if they are properly reporting premiums and maintaining accurate records. In 2023, ESD completed 169 audits. Of these, 163 (96%) led to corrections: $283,000 in underpayments and $48,000 in overpayments.

The scale of inaccurate wage reporting and its overall impact on the program's financial health is unknown. ESD has completed 201 of the 801 audits it assigned staff since 2021. Contrary to best practice, it does not have procedures for selecting which employers to audit or for determining how many employers will be audited each year.

ESD has not provided timely customer service

ESD's customer service representatives process applications and claims and answer the phones in the call center.

- **Application and claim processing**: ESD aims to approve an employee's first benefit payment within three weeks of their application. Between January 2022 and June 2024, ESD met that target in 16 of 30 months.
- **Call center**: The number of calls to ESD's call center increased each year. Calls are placed in queues based on the reason for the call. When call volume is high, the system automatically disconnects calls if queues are full.
    - In 2022, ESD received an average of 47,000 calls about PFML per month. It answered 60%.
    - As of June 2024, it received an average of 78,000 calls per month. ESD answered 23% of calls between January and June 2024.

While ESD tracks metrics such as call hold times, it does not have any formal performance measures to help it manage or evaluate application processing or call center performance. Measures could help the agency determine and address the factors that contribute to long wait times for applications and call center response.

Legislative Auditor's recommendations

1. The Legislature should implement a forward-looking rate-setting approach that maintains a sufficient financial reserve for the PFML program.

2. ESD should adopt criteria for its compliance audit program.
3. ESD should adopt quantifiable customer-oriented performance measures for claims processing and call center management.
4. ESD should develop a documented and transparent process for prioritizing projects.

ESD concurs with these recommendations. You can find additional information in the **Recommendations section**.

Committee action to distribute report

On January 9, 2025 this report was approved for distribution by the Joint Legislative Audit and Review Committee. Action to distribute this report does not imply the Committee agrees or disagrees with Legislative Auditor recommendations.