Annual Review of the Contribution Rate Policy

Rate Calculation Considerations

- Based on a review of other state contribution rate setting calculations, seven states out of 15 have explicit formulae set out for rate setting purposes
- Key components should consider:
    1. Rate cap of 0.5% in current legislation resulting in limits on rate increases
        - Lowest rate cap compared to all other states
    2. Current and future fund balance
        - Account for timing of contributions (e.g., one month grace period) and reserve for outstanding claims
    3. Long-term impact
        - Consider 10-year time horizon (consistent with recent analyses)
        - Account for impact of anticipated changes (e.g., increasing incidence levels)
    4. Risk of lower contributions or higher expenses
        - Account for impact of unanticipated changes (including shock events such as and economic downturn and health pandemic)
        - Level of coverage depends on conservatism/risk tolerance
    5. Minimize volatility of rates
        - Limit frequent rate changes by setting thresholds for rate changes

Elements of Rate Calculation Formula

Element	Proposed Formula
Long-term view	▪ Use 10-year cost and benefit projection
Fund balance at the end of 10 years	▪ Determine projected fund balance (net of reserves) at the end of 10 years based on current fund balance plus net activity over 10 years ▪ Set minimum fund balance equal to contingency reserve required: – 2024 modeling suggests contingency reserve may be set to cover for a 10% reduction in contributions over three years plus 25% increase in claims and expenses over three years
Determine minimum contribution level over 10-year period	▪ Determine total contributions required to cover program costs and maintain sufficient fund balance at the end of 10 years ▪ Develop contribution rate based on minimum contribution level required

Modeling of Rate Calculation Formula for 2025

Item (financials shown in $ millions)	Result
A. Current fund balance (end of FY 2024)	**$633.5**
B. 10-year cost and benefit projection (based on current rates, 0.5%)	
a. Incurred contributions	$5,673.1
b. Investment income	$213.0
c. Incurred claims	($4,922.4)
d. Other expenses	($528.4)
e. Net activity	**$435.3**
C. Projected fund balance at the end of 10 years under current 0.5% contribution rate (A + B)	**$1,068.8**
D. Target fund balance at the end of 10 years	
a. 10% of FY 2034 contributions at 0.5% (contribution rate) x 3 years	$202.3
b. 25% of FY 2034 incurred claims plus other expenses x 3 years	$491.7
c. Target fund balance at the end of 10 years	**$694.0**
E. Surplus/(deficit) (projected fund balance at the end of 10 years minus target fund balance) (C – D)	**$374.8**
F. Calculated rate action (E / B.a.)	**-7%**
G. Current rate	0.500%
H. Calculated new rate (prior to rounding) (G * (1+F))	0.467%
I. Calculated new rate (after rounding up to nearest 0.025%)	**0.475%**