Individual State Agency Fiscal Note

Bill Number: 1732 HB	Title: Delaying the implementation of the long-term services and supports trust program	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Mary Mulholland	Phone: 360-786-7391	Date: 01/03/2022
Agency Preparation:	Melinda Aslakson	Phone: 360-786-6161	Date: 01/11/2022
Agency Approval:	Luke Masselink	Phone: 360-786-6154	Date: 01/11/2022
OFM Review:		Phone:	Date:

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

January 11, 2022

SUBJECT: ACTUARIAL ANALYSIS ON HOUSE BILL (HB) 1732 - 2022 SESSION

The Office of the State Actuary (OSA) currently contracts with an outside consultant to provide most actuarial analysis for the Long-Term Services and Supports (LTSS) Trust program, also referred to as the WA Cares Fund. We prepared this cover memo to introduce and summarize the outside consultant's (Milliman's) actuarial analysis on this bill.

Background on Current Law Program

The WA Cares Fund is a self-funded program through a premium rate of 0.58 percent – applied to covered wages of covered wage earners. The benefits provided by the program under current law are defined in the Revised Code of Washington (RCW) 50b.04.040.

Milliman's *2020 Long-Term Services and Supports Trust Actuarial Study* (Milliman 2020 Study) analyzed the estimated premium rate needed to pay full program benefits and expenses under various scenarios. See the Milliman 2020 Study for a summary of the scenarios tested and a description of benefits assumed to be provided under current law as of December 2020.

For background and summary information on the actuarial status of the LTSS Trust Program, see the *Actuarial Status of the LTSS Trust Program Report* on OSA's website.

Summary of HB 1732

This bill amends the LTSS Trust Program as follows:

1. Delays the LTSS program implementation by 18 months including,
    a. Implementation of premium assessments to begin on July 1, 2023, instead of January 1, 2022,
    b. Benefits are eligible for payment no earlier than July 1, 2026, instead of January 1, 2025, and
    c. The option for self-employed to opt in to the LTSS Trust Program is available as of July 1, 2023, instead of January 1, 2022.
2. As part of the program delay, OSA's first biennial actuarial valuation and audit is to be completed beginning July 1, 2026.

3. Provides prorated benefits for near retirees born before January 1, 1968, with fewer than the number of years identified for qualification if they have paid premiums for one year. This means qualified individuals who work fewer than ten years, may be eligible to receive one-tenth of the maximum benefit units for each year of payments.
4. Requires any premiums deducted prior to July 1, 2023, to be refunded by the Employment Security Department or employers within 120 days of the collection of premiums.
5. This bill has an emergency clause and is effective immediately upon passage.

Summary of Actuarial Analysis

Background

In the following discussion, we summarize the analysis Milliman provides for the expected change to the level premium assessment required to pay all expected benefits over the next 75 years if all assumptions are realized. The actual impact to the required premium rate could be more or less than what's shown. The premium rates shown in Milliman's attached analysis exceed the maximum allowable premium rate under current law of 0.58 percent. Please note, however, that the passage of this bill, by itself, will not change the premium rate collected. The examples simply show how it might impact expected program costs.

Please note what is presented here are estimates of the actuarial impact of discrete provisions of HB 1732 relative to the "baseline" in the Milliman 2020 Study. To more precisely estimate the full impact of this bill, Milliman would need to analyze its provisions relative to an updated "baseline." Such an analysis would reflect, among other updated data, actual experience from the private market exemptions as well as interaction effects between private market exemptions and near retirees. After an updated baseline analysis is performed, the impacts from this bill could be more or less than the information shown below.

Analysis of Changes Proposed in HB 1732

We have attached a letter from Milliman which provides the estimated impacts from the program changes detailed in HB 1732.

Delaying the program by 18 months lowers expected costs while providing partial benefits to near retirees increases expected costs. Taken together, if HB 1732 were to pass we expect it to lower program costs over the 75-year projection period.

We see a savings from the delay because projected revenue is estimated to increase by more than projected benefits and expenses over the projection period. On the revenue side, starting wages for premium collection are estimated to be higher by 18 months of assumed wage growth when compared to current law. On the benefits side, under current law, the maximum lifetime benefit provided by the WA Cares Fund is $36,500 as of January 1, 2025. Under HB 1732, the maximum lifetime benefit provided by the program is $36,500 as of July 1, 2026, i.e., no growth during the delay period. Under both current law and HB 1732, the maximum lifetime benefit is assumed to increase annually.

We see a cost associated with providing partial vesting to near retirees. This is due to an increase in expected program benefits for near retirees under this proposal. Under current law, many near retirees are expected to contribute premiums, but would not work enough years to reach full vesting. This bill provides a partial benefit, or prorated benefit, for employees born before January 1, 1968, who work less than ten years, whereas under current law, in many cases, no benefit would have been earned.

In the Milliman 2020 Study, Milliman assumed benefits increased by inflation every year on January 1. Given RCW 50b.04.040 and HB 1732 do not explicitly define when benefits are inflated, other than annually, Milliman performed estimates for the 18-month delay under two scenarios related to the timing of benefit increases. The table below summarizes the impact of the program changes included in HB 1732.

Estimated Impact to Required Premium Rate from HB 1732	Benefit First Increases on 7/1/2027	Benefit First Increases on 1/1/2027
a. 18-Month Delay	(0.04%)	(0.03%)
b. Partial Benefit for Near Retirees	0.01%	0.01%
Total Estimated Premium Rate Impact from HB 1732	**(0.03%)**	**(0.02%)**

As noted in the Milliman 2020 Study, the estimated required premium rate required to pay for all program benefits and expenses over the next 75 years is 0.66 percent of covered wages. This "baseline" analysis reflects an assumed investment policy of U.S. Treasuries, roughly 105,000 individuals choosing the private market exemption, and other assumptions. That baseline, however, relied on economic data and program parameters that have since changed. To improve estimated impacts of this bill, its provisions would need to be analyzed within the context of an updated baseline analysis. Please note, further, that the passage of this bill, by itself, will not change the statutory premium rate collected, which is currently 0.58 percent of covered wages.

Milliman notes the following assumptions as it relates to their analysis:

- Vesting by program year would not be affected by this delay. For example, Milliman assumed the vesting in program year 8 would be consistent before and after the delay, such that the vesting rates for January 1, 2028, to December 31, 2028, under current law is equivalent to the vesting rates for July 1, 2029, to June 30, 2030, after the 18-month delay. To the extent vesting would be administered or tracked differently as a result of the 18-month delay, Milliman would expect the required premium assessment would also differ.
- The exemption structure for private Long-Term Care (LTC) insurance as included in the Milliman 2020 Study, including an assumption that the deadline of December 31, 2022, to apply for an exemption, would remain unchanged. The changes to the premium assessments in this letter could be lower or higher to the extent the number and characteristics of individuals becoming exempt through the purchase of

private LTC insurance differ from the assumptions included in the Milliman 2020 Study.

- ❖ Offering prorated benefits to near retirees would not alter the vesting patterns modeled under the baseline (i.e., adding prorated benefits would not cause individuals born before January 1, 1968, to change the number of years or amount of time they work).

The WA Cares Fund Risk Management Framework was approved by the LTSS Trust Commission on November 10, 2021. It includes, among other things, a funding goal for the program, risk management and response strategies to support that goal, and ongoing reporting to track key metrics. The adopted WA Cares Fund funding goal is to "Provide secure and meaningful benefits at the lowest expected cost for beneficiaries now and in the future." Delaying the program by 18 months is expected to lower costs in part because the WA Cares Fund benefit is not increased during the delay. One of the ongoing risk management reporting metrics will track how meaningful the WA Cares Fund benefit is relative to the estimated costs of standard LTC services in Washington State. This bill is expected to lower the relative value of the WA Cares Fund benefit compared to current law. When making decisions to support the solvency of the WA Cares Fund program, it can lead to outcomes that diminish how meaningful the program benefit is relative to potential LTC costs.

Attachments:

A. 18-Month Program Delay and Partial Benefits for Near Retirees.

O:\LTSS\2022\Session\1732\Actuarial.Analysis.HB.1732.docx

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January 10, 2022

Luke Masselink, ASA, EA, MAAA
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[Sent via email: luke.masselink@leg.wa.gov]

Re: 18-Month Program Delay and Partial Benefits for Near Retirees

Dear Luke:

Per your request, we modeled an alternative to the Base Plan from the 2020 LTSS Trust Actuarial Study[1] (2020 Study) provided on December 14, 2020. For this alternative we assume:

1. The program start date is delayed by 18 months (i.e., premiums collected starting July 1, 2023, benefits paid starting July 1, 2026)

2. Near retirees (individuals born in 1968 and earlier) will be eligible for prorated, partial benefits

This alternative is designed to approximate the impact House Bill (HB) 1732 could have on the premium rate of the WA Cares Fund for only the two program changes outlined above. The results of this alternative are presented in Table 1.

The estimates provided in this letter are prepared to assist in evaluating the impact of alternative benefit features for WA Cares Fund. Any estimates around required program revenue are for feasibility purposes only and not intended, and should not be used, for setting the program premium assessment.

Table 1
Washington Office of the State Actuary
WA Cares Fund Program Alternative – Potential Impact of HB 1732
Lifetime Benefits of $36,500 Starting on July 1, 2026
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.664%	
18-month delay		
Benefit first inflates on July 1, 2027, annually thereafter	0.627%	-0.037%
Benefit first inflates on January 1, 2027, annually thereafter	0.634%	-0.030%
18-month delay and partial benefits for near retirees		
Benefit first inflates on July 1, 2027, annually thereafter	0.637%	-0.027%
Benefit first inflates on January 1, 2027, annually thereafter	0.645%	-0.019%

All plan features, methodology, and assumptions are consistent with the modeling of the Base Plan in the 2020 Study with the exception of the 18-month delay and the partial benefits for near retirees. The results in this letter should be considered in their entirety, and in combination with our 2020 Study.

[1] Giese, C. et al. (December 14, 2020). 2020 Long-Term Services and Supports Trust Actuarial Study. Milliman Report. Retrieved August 25, 2021, from https://leg.wa.gov/osa/additionalservices/Documents/Milliman2020WALTSSTrustActuarial%20Study.pdf

PREMIUM IMPACT OF 18-MONTH DELAY

We analyzed the cost of delaying the program start date by 18 months, such that the first premium assessments would be collected on July 1, 2023 and the first benefit payments would be paid starting July 1, 2026. The starting lifetime benefits are assumed to be $36,500 on July 1, 2026.

In our modeling of the Base Plan for our 2020 Study, we assumed that benefits were inflated every year on January 1, and indexed to a consumer price index, which we assumed to be 2.5% annual. Given that the current law and HB 1732 do not explicitly define when benefits are inflated, per discussions with OSA and DSHS, we performed our calculations for the 18-month delay under two scenarios related to the timing of benefit increases:

1. Benefits first inflate on July 1, 2027 and will inflate annually on July 1 of each year thereafter
2. Benefits first inflate on January 1, 2027 and will inflate annually on January 1 of each year thereafter

All else equal, delaying the program start date lowers the needed premium assessment by 0.037% (down to 0.627% from 0.664% under the Base Plan) because the starting level of benefits remain unchanged from the Base Plan, while wages underlying the premium assessment are expected to increase over the 18-month period from January 1, 2022 to July 1, 2023. Inflating the benefits in January compared with July requires a slightly higher premium assessment (0.634% versus 0.627%) because benefits are inflated six months earlier and will therefore be higher during six months of each year, over the course of the program.

We assumed all other program features would not be affected by the 18-month delay. For example:

- We assumed vesting by program year would not be affected by this delay. For example, we assumed the vesting in program year 8 would be consistent before and after the delay, such that the vesting rates for January 1, 2028 to December 31, 2028 under the Base Plan is equivalent to the vesting rates for July 1, 2029 to June 30, 2030 after the 18-month delay. To the extent vesting would be administered or tracked differently as a result of the 18-month delay, we would expect the required premium assessment would also differ.

- We assumed an opt-out structure for private long-term care (LTC) insurance as included in the 2020 Study, including an assumption that the deadline of December 31, 2022 to apply for an exemption would remain unchanged. Subsequent to that study, the WA Cares Fund opt-out offering was clarified to consider the purchase of private LTC insurance through November 1, 2021. The changes to the premium assessments in this letter could be lower or higher to the extent the number and characteristics of individuals opting out through the purchase of private of LTC insurance differ from the assumptions included in the 2020 Study.

PREMIUM IMPACT OF PARTIAL, PRORATED BENEFITS FOR NEAR RETIREES

We analyzed the cost of providing partial benefits to near retirees on a prorated basis, which increases the tax rate by approximately 0.010% (i.e., 0.637% - 0.627% = 0.010%). For purposes of this analysis, near retirees are defined to include individuals born in 1968 and earlier who we expect to pay in at least one year to the program but are closer to retirement age and may not have the opportunity to fully vest.

We assumed participation for these individuals would be mandatory and would not require any additional payment or action from these individuals to become vested. We assumed prorated benefits would be proportional to the 10-year vesting requirement for full benefits, as shown in Table 2. For example, an individual with four years of vesting credits would receive 40% (= 4 / 10) of full benefits. We also assumed that offering prorated benefits to near retirees would not alter the vesting patterns modeled under the Base Plan (i.e., adding prorated benefits would not cause individuals born in 1968 and earlier to change the number of years or amount of time they work).

Table 2 Washington Office of the State Actuary Percentage of Benefit Modeled				
	Near-Retirees[1]		All Other Individuals	
Years Vested into Program	Base Plan	Prorated Benefit Alternative	Base Plan	Prorated Benefit Alternative
3 of the last 6	100%	100%	100%	100%
0	0%	0%	0%	0%
1	0%	10%	0%	0%
2	0%	20%	0%	0%
3	0%	30%	0%	0%
4	0%	40%	0%	0%
5	0%	50%	0%	0%
6	0%	60%	0%	0%
7	0%	70%	0%	0%
8	0%	80%	0%	0%
9	0%	90%	0%	0%
10+	100%	100%	100%	100%

[1] *Near retirees include individuals born in 1968 or earlier*

Consistent with the Base Plan methodology, we used the 2006 Social Security Earnings Public Use Microdata File and American Time Use Survey to estimate the percentage of Washingtonians that would become vested by age, sex, and projection year. For each age, except for the near-retiree cohort, the percentage of individuals who had recorded income for three of the previous six years or eight years total is tabulated, consistent with the Base Plan. We used eight instead of 10 years in this tabulation because becoming insured under this program provides an added incentive to continue working for those who are almost insured. For the near-retiree cohort, we also separately tabulate the percentage of individuals by number of years of recorded wages, since the years of wages will determine the prorated benefit amount.

After segmenting the near-retiree cohort by years vested, we apply a prorating adjustment to the assumed benefit for each cohort, as shown in Table 2. Additionally, we apply a utilization adjustment to the projected benefits to account for individuals exhausting their partial benefits more quickly than they would exhaust their full benefits. This is because we assume the partial benefit, like the full benefit, would not be subject to a daily benefit maximum and individuals would likely still use a similar benefit amount per day as individuals with full benefits, they would just use it more quickly.

OTHER CONSIDERATIONS

This alternative continues to assume administrative expenses to be 3.5% of premiums and 3.5% of benefits, consistent with the assumptions used to project the Base Plan in our 2020 Study. To the extent this alternative would increase the administrative expenses of the program, the premium assessment for the program would also need to be increased.

CAVEATS AND LIMITATIONS

This information is intended for the internal use of the Washington State Office of the State Actuary (OSA) and Washington State Department of Social and Health Services (DSHS) and it should not be distributed, in whole or in part, to any external party without the prior written permission of Milliman, subject to the following exception:

- This letter shall be a public record that shall be subject to disclosure to the State Legislature and its committees, persons participating in legislative reviews and deliberations, and parties making a request pursuant to the Washington Public Records Act

We do not intend this information to benefit any third party even if we permit the distribution of our work product to such third party.

This information provides the estimated impact to the premium assessment of delaying the program by 18 months, and of providing partial prorated benefits to near retirees compared to the Base Plan presented in the 2020 LTSS Trust Actuarial Study provided on December 14, 2020, which should be read in its entirety with this letter. In completing this analysis, we relied on information provided by OSA, DSHS, and publicly available data. We accepted without audit, but reviewed the information for general reasonableness. Our summary may not be appropriate if this information is not accurate.

Many assumptions were used to construct the estimates in this letter. Actual results will differ from the projections in this letter. Experience should be monitored as it emerges, and corrective actions should be taken when necessary.

Milliman has developed certain models to estimate the values included in this letter. The intent of the models is to estimate required revenue for alternative program features of the WA Cares Fund. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Chris Giese and Annie Gunnlaugsson are members of the American Academy of Actuaries, and meet the qualification standards for performing the analyses in this letter.

The terms of the Personal Services Contract with Washington State OSA effective December 2, 2021, apply to this information.

❖ ❖ ❖ ❖ ❖

Sincerely,

Christopher J. Giese

Christopher J. Giese, FSA, MAAA
Principal and Consulting Actuary

CJG/bl