Individual State Agency Fiscal Note

Bill Number: 1733 HB	Title: Establishing voluntary exemptions to the long term services and supports trust program for certain populations	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:

- [X] 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) 1733 – 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 50B.04.

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 1733

This bill amends the LTSS Trust Program as follows:

Section 2 (1) adds the following voluntary exemptions from premium assessments beginning January 1,2023, that align with policy options considered by the LTSS Trust Commission:

(a) Veterans with a service-related disability of 70 percent or higher,

(b) The spouses or registered domestic partners of active-duty service members,

(c) Persons working in the US under temporary, non-immigrant work visas, and

(d) Persons with a permanent primary address outside of Washington but working in Washington.

For those that receive an exemption, the bill also includes a mandatory exemption removal if an individual's circumstances change.

For example, with regard to (b) above, this bill creates a 90-day required exemption removal period for spouses or domestic partners if the active-duty service member is discharged or separates from military service; or the dissolution of the marriage or registered domestic partnership with the active duty service member.

With regard to (c) above, this bill creates a 90-day exemption removal period for persons working in the US under temporary, non-immigrant work visas should they become a citizen.

With regard to (d) above, this bill creates a 90-day required exemption removal period for individuals with a permanent primary address outside of Washington but working in Washington who later become a permanent resident of Washington.

In all cases, it is incumbent upon the individual to notify the Employment Security Department (ESD) of discontinuing an exemption and notify their employer to begin premium assessments. Failure of the employee to begin paying premiums within 90 days of the occurrence of changes in circumstances will result in the payment of any unpaid premiums, with interest, by the employee to ESD from the date they originally should have begun.

Exempt employees are not entitled to a refund of any premium deductions made before the effective date of an approved exemption or before they notify their employer.

An employee who has received an exemption will provide written notification to all current and future employers of an approved exemption. Employers may not deduct premiums after being notified by an employee of an approved exemption.

The bill provides ESD rulemaking authority for implementation including developing criteria, procedures and rules for submission and processing applications and verifying exemptions.

Summary of Actuarial Analysis

Background

HB 1733 provides choice for employees to opt out of the WA Cares Fund program. Whenever choice is involved, it creates the potential for adverse selection and uncertainty in pricing estimated impacts. The larger/smaller the impacted population relative to the total working population, the larger/smaller the potential for adverse selection to impact the underlying premium rate, all else equal. The presentation or format of Milliman's analysis varies depending on the size of the impacted population. For relatively smaller populations, Milliman provides a single, point estimate to display the change in expected cost or premium rate for a specific benefit provision. For larger populations, they prepare various scenarios to show how the premium rate impact can change under different levels of modeled adverse selection.

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. If this bill passes, it would lead to increased program costs.

Please note, however, that the passage of this bill, by itself, will not change the premium rate collected, which is currently 0.58 percent of covered wages. 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 1733 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 the policies of HB 1733. 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 1733

We have attached two letters from Milliman which, except as noted below, include the estimated impacts from the policy changes detailed in HB 1733, as well as other policy changes that have been considered by the LTSS Trust Commission.

The estimates for items (a) and (b) in the Summary of HB 1733 section are included in the December 3, 2021, letter, Voluntary Military Opt-Outs. The estimates for items (c) and (d) are included in the September 2, 2021, letter, Additional Modeling for Benefit Eligibility Workgroup (modeling requests #2 and #4).

The table below summarizes the aggregated impact of the four policy options included in HB 1733. Since Milliman priced each policy change separately, the summation of all impacts may be more or less than shown.

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.

Estimated Increase to Required Premium Rate from HB 1733	
a. Veterans with Service-Related Disability 70% or Higher	< 0.01%
b. Spouse or Domestic Partner of Active-Duty Service Members	< 0.01%
c. Temporary, Non-Immigrant Visa Workers	0.01%
d. Employees Who Work in WA but Have a Permanent Address outside of WA	0.03% - 0.06%
Total Estimated Premium Rate Increase to Cover Additional Costs from HB 1733	**0.05% - 0.08%**

Please note the following:

- ❖ HB 1733 allows for exemption applications to be accepted starting January 1, 2023, however current law premium collection began on January 1, 2022. That means employees could pay premiums for a year before they are eligible for exemption under this bill. The bill does not allow for refunds of premiums. The pricing above does not assume a year of premium revenue from the employees that become exempt. If it did, the estimated premium impacts would be less than what is shown in the table above.
- ❖ The bill requires employees to alert ESD and their employer when their circumstances change. Not requiring employees to re-validate their exemption may lead to individuals choosing not to follow this protocol when their circumstances change as a way to avoid the WA Cares Fund program. This could lead to adverse selection with those that choose to self-report an exemption removal. If ESD implements and administers a revalidation process through their rulemaking process, this could limit adverse selection from those that self-report a change.
- ❖ Milliman priced the estimated impact of a mandatory exemption for temporary, non-immigrant visa holders. The bill allows for a voluntary exemption. Based on the estimated visa holder population assumed by Milliman relative to all workers, the estimated premium rate impact in the table above is likely still reasonable for a voluntary exemption.
- ❖ Milliman estimated the impact to a voluntary exemption of employees who work in Washington but have permanent residence in a border state. HB 1733 expands this definition to working in Washington but having a permanent residence anywhere else, not just a border state. Since the program requires the employee to physically work in Washington, it is unlikely this expansion will significantly alter the estimated headcount from Milliman's attached analysis.

Attachments:

A. Voluntary Military Opt-Outs.
B. Additional Modeling for Benefit Eligibility Workgroup (modeling requests #2 and #4).

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September 2, 2021

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[Sent via email: luke.masselink@leg.wa.gov]

Re: Additional Modeling for Benefit Eligibility Workgroup

Dear Luke:

Per your request, we performed preliminary analysis of alternative program features for the WA Cares Fund being considered by the Long-Term Services and Supports (LTSS) Trust Commission Benefit Eligibility Workgroup.

The starting Base Plan for this letter relies upon the base plan included in our 2020 LTSS Trust Actuarial Study[1] dated December 12, 2020 (2020 Actuarial Study). All plan features, methodology, and assumptions are consistent with the modeling of the base plan in our 2020 Actuarial Study unless indicated otherwise. The results in this letter should be considered in their entirety in combination with our 2020 Actuarial Study.

Various alternatives in this letter allow choice for individuals to opt-in or opt-out of the WA Cares Fund at the start of the program (i.e., by the end of 2022). **Program parameters that introduce choice and that are not mandatory create potential for adverse selection and uncertainty in pricing and projection estimates.** When an alternative includes a choice to participate in the WA Cares Fund, we illustrate results under varying impacts to premiums and claims, including scenarios where premiums and claims are impacted differently due to potential adverse selection.

It is important to note that the plan alternatives described in this letter may not affect the WA Cares Fund cash flows equally in each calendar year. In particular, proposals that target certain age groups or that include one-time optional choices will have varying impacts across the 75-year horizon modeled. Throughout this letter, the impact of the plan alternatives requested by the Benefit Eligibility Workgroup is illustrated by comparing the estimated premium assessment over the 75-year horizon of each plan alternative to the 2020 Actuarial Study Base Plan. It will be critical for the Benefit Eligibility Workgroup to also consider the cash flow impact to the WA Cares Fund by year, among other factors, if a different funding approach is used.

The results in this letter rely on the assumed opt-out structure for private long-term care (LTC) insurance as included in the 2020 Actuarial Study. Subsequent to that study, the WA Cares Fund opt-out offering was clarified to include 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 differs from the assumptions included in the 2020 Actuarial Study.**

MODELING REQUEST #1: NEAR-RETIREES

We analyzed two proposals from the Benefit Eligibility Workgroup for addressing "near-retirees" (i.e., those within 10 years of retirement who may not have the opportunity to fully vest into the program). The first proposal would allow people to continue contributing after retirement by paying an annual premium equal to their average annual premium during their previous vesting years (adjusted for wage inflation) until they hit the ten year mark, at which point they become permanently vested and owe no further premiums. Figure 1 below shows the payroll premium assessments required to fund the program over a 75-year window for the program alternatives.

[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

Figure 1
Washington Office of the State Actuary
Cost Illustrations to Cover Near-Retirees Through Additional Premiums
Level Premium Assessment Required
Assumed Retirement Age 65

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Add 50% premium / add 50% claims for near-retirees	0.69%	0.03%
Scenario 2: Add 100% premium / add 100% claims for near-retirees	0.72%	0.05%
Scenario 3: Add 0% premium / add 100% claims for near-retirees	0.72%	0.06%

Under the Base Plan, there is no premium paid by individuals beyond the premium assessment on wages. Additionally, there is no benefit included for anyone who is not able to vest. The alternatives in Figure 1 contemplate adding premiums, so that individuals who would not be able to vest under the Base Plan, due to their impending retirement age, could vest and become eligible for benefits. When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model different scenarios related to the additional premiums and claims that could be added to the program by this near-retiree cohort.

The second proposal we examined uses a structure where anyone born in 1966 or earlier would be allowed to opt out (without needing to purchase a private long-term care insurance plan). See Figure 2 below.

Figure 2
Washington Office of the State Actuary
Options to Exempt Near-Retirees
Voluntary Opt-out for Individuals Born in 1966 or Earlier
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Remove 100% premium / remove 100% claims for near-retirees	0.63%	-0.03%
Scenario 2: Remove 100% premium / remove 0% claims for near-retirees	0.68%	0.01%
Scenario 3: Remove 50% premium / remove 0% claims for near-retirees	0.67%	0.01%

Under the Base Plan, premium assessments are charged on all wages from wage earners (with the exception of several cohorts exempt through opt-in or opt-out) regardless of the wage earners age or proximity to retirement. This would mean that some near-retirement individuals will contribute to the program via the premium assessment, but never be eligible for benefits, as they will retire before attaining vested status. The alternatives in Figure 2 contemplate allowing near-retirees (defined here as anyone born in 1966 or earlier) the option to opt out of the WA Cares Fund. When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model different scenarios related to the premiums and claims for this near-retiree cohort that might be removed from the program under such an opt-out.

MODELING REQUEST #2: BORDER STATE RESIDENTS COMMUTING TO WORK IN WASHINGTON

We analyzed two proposals from the Benefit Eligibility Workgroup for addressing border-state residents who do not reside in Washington, but have earned wages in Washington. The first proposal would remove the benefit-eligibility exclusion for vested individuals residing in border states (i.e., Idaho and Oregon). See Figure 3 below.

Figure 3
Washington Office of the State Actuary
Options to Cover Border-State Residents Earning Wages in Washington
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Remove benefit-eligibility exclusion for vested individuals residing in Idaho or Oregon	0.73%	0.07%

The second proposal examines structures where border-state residents could be exempted from paying into the program. We modeled both a voluntary opt-out and a mandatory, automatic exemption for border-state residents. We assumed that 150,000 workers commute into Washington from bordering states based on data from the Washington Employment Security Department. We also assumed their average wages were the same as those individuals modeled under the Base Plan. Figure 4 summarizes the modeling results.

Figure 4
Washington Office of the State Actuary
Options to Exempt Border-State Residents Earning Wages in Washington
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Automatic exemption – remove 100% premium / add 0% claims of border-state residents	0.69%	0.03%
Scenario 2: Voluntary – remove 0% premium / add 100% claims of border-state residents	0.69%	0.03%
Scenario 3: Voluntary – remove 100% premium / add 100% claims of border-state residents	0.72%	0.06%
Scenario 4: Voluntary – remove 50% premium / add 50% claims of border-state residents	0.69%	0.03%

Under the Base Plan, premium assessments are charged on all wages including wage earners living in other states. This would mean that individuals living out of state will contribute to the program, but may not be eligible for benefits unless they move into Washington when they need services. The automatic exemption scenario (Scenario 1) removes the premium contributed from these individuals, but there no claims to remove, since those individuals do not live in Washington.

When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model scenarios 2 through 4 where we remove premiums and add claims from individuals in border states. Should individuals living in border states that pay premium assessments move into Washington at the time they need care (and therefore, would then be eligible for benefits from the WA Cares Fund), the additional claims in these scenarios represent potential additional benefits payable by the WA Cares Fund. For example, Scenario 4 assumes 50% of individuals decide to opt out, so we remove 50% of the modeled premiums from the Base Plan. However, since 50% chose to opt in, we assume they would move into Washington at the time services are needed. We then need to correspondingly add 50% of claims to the Base Plan from individuals living in border states that pay premium assessments and vest.

MODELING REQUEST #3: PEOPLE WHO LEAVE THE STATE

We analyzed proposals from the Benefit Eligibility Workgroup in which individuals who leave the state could use benefits outside the state (either 100% of full benefits or 50% of full benefits). See Figure 5 below. These tests are similar to those modeled under the divesting / portability alternatives shown in the 2020 Actuarial Study.

Figure 5
Washington Office of the State Actuary
Options to Cover People Who Leave the State
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
100% of Full Benefits Portable	1.03%	0.36%
50% of Full Benefits Portable	0.85%	0.18%

MODELING REQUEST #4: NON-IMMIGRANT VISAS

We analyzed a proposal from the Benefit Eligibility Workgroup where individuals with a non-immigrant visa are automatically exempt from the WA Cares Fund. Under the Base Plan, premium assessments are collected on wages from all non-exempt wage earners, including individuals, such as non-immigrant visa holders. Benefits are only assumed to be paid to individuals who are permanent residents of the state of Washington, which would not include non-immigrant visa holders.

We assumed there were nearly 23,000 individuals holding H2A visas[2] and 30,000 individuals holding H1B visas[3] in Washington in 2020. Additional assumptions related to these individuals are summarized below. Because H2A and H1B visa holders make up a small proportion of total wage earners in Washington, this alternative has a minor impact to the premium assessment compared to the Base Plan, requiring an increase to the premium assessment percentage of roughly 0.01% (i.e., to 0.678% from 0.664%).

Other assumptions we used to model the estimated impact to the premium assessment for individuals with a non-immigrant visa include:

- Individuals with a H2A visa have average annual wages of $32,926. This is based on an assumed hourly rate of $15.83 and working 40 hours per week.
- Individuals with a H1B visa have average annual wages of $122,000.
- Wages are assumed to increase annually at the same rate underlying the Base Plan modeling.
- The proportion of individuals with a non-immigrant visa compared to the total population of Washington workers remains constant across the 75-year horizon modeled.

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:

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[2] *Yearbook of Immigration Statistics 2019. (April 30, 2021).* Department of Homeland Security. Retrieved August 31, 2021 from https://www.dhs.gov/immigration-statistics/yearbook/2019.
[3] "Top H1B Visa Sponsor by Work State : 2020 H1B Visa Reports." Myvisajobs.com. Retrieved August 23, 2021, from, www.myvisajobs.com/Reports/2020-H1B-Visa-Category.aspx?T=WS#LCA.

- 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 additional alternatives to the 2020 Baseline 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 Washington 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, Annie Gunnlaugsson, and Evan Pollock 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 February 26, 2020, apply to this information.

❖ ❖ ❖ ❖ ❖

Luke, please let us know if you would like to discuss further or have any other questions.

Sincerely,

Christopher J. Giese

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December 3, 2021

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[Sent via email: luke.masselink@leg.wa.gov]

Re: Voluntary Military Opt-Outs

Dear Luke:

Per your request, we analyzed the impact of exempting two cohorts from the WA Cares Fund through voluntary opt-outs: (1) active military spouses, and (2) veterans rated 70% disabled or above.

The starting Base Plan for this letter relies upon the base plan included in our 2020 LTSS Trust Actuarial Study[1] dated December 12, 2020 (2020 Actuarial Study). All plan features, methodology, and assumptions are consistent with the modeling of the base plan in our 2020 Actuarial Study using the "Invest Treasuries" scenario unless indicated otherwise. The results in this letter should be considered in their entirety in combination with our 2020 Actuarial Study.

Various alternatives in this letter allow choice for individuals to opt out of the WA Cares Fund on an ongoing, voluntary basis. **Program parameters that introduce choice and that are not mandatory create potential for adverse selection and uncertainty in pricing and projection estimates.**

Per our discussion with the Washington State Office of the State Actuary (OSA) and Washington State Department of Social and Health Services (DSHS), we provide point estimates for the potential impact of the program alternatives under one adverse selection scenario in this letter. Only one adverse selection scenario was modeled because of the relatively smaller count of individuals affected compared to the entire working population. The adverse selection scenario considered in this letter assumes 100% of wages are excluded and 100% of benefits are retained for the exempted groups. Although we provide point estimates under one scenario in this letter, the needed premium assessment could be different depending on the actual level of adverse selection. It is worth noting that modeling participation scenarios other than 100% wages excluded / 100% benefits retained is likely to produce a result somewhere in between the estimated premium assessments in this letter and the estimated Base Plan premium assessment of 0.66%.

ACTIVE MILITARY SPOUSE EXEMPTION

We analyzed the impact of allowing military spouses to opt out of the WA Cares Fund by carving out 100% of the premium we assume would have been collected from this cohort under the Base Plan. Per discussions with OSA and DSHS, we assumed this exemption would only apply to spouses of *active* military and operate on an annual basis (i.e., individuals with military spouses would be able to opt out of paying the premium assessment for that year and would not necessarily be opted out of the program for life).

[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

Table 1
Washington Office of the State Actuary
Active Military Spouse Exemption
Exclude 100% of Premium, Retain 100% of Claims[1]
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.664%	N/A
Exempt Military Spouses	0.666%	0.002%

[1] To test the impact on the premium assessment of exempting military spouses, we excluded 100% of the premiums assessed to military spouses. Given military spouses will have the choice to participate or opt out, we retained 100% of the modeled claims due to the uncertainty of adverse selection as one possible scenario. The estimated premium assessment could be different depending on the actual level of adverse selection.

We used the following assumptions to model the estimated impact to the premium assessment for exempting military spouses:

- We estimated that there were approximately 12,600 employed spouses of active military in Washington in 2022. This is based on the following assumptions:
  - Per data provided by DSHS, there are approximately 61,000 active-duty military personnel in Washington.
  - Per data provided by DSHS, approximately 52% of military personnel are married.
  - Approximately 40% of military spouses are employed.[2]
- We estimated military spouses have average annual wages of approximately $47,800, based on the assumption that these individuals have incomes 26% lower than the average wage nationwide.[3]
- We used the 2022 counts and wages to calculate a "revenue adjustment," which we use to carve out the payroll premium assessments that would have been collected from military spouses. We apply the same adjustment to revenue in every year of the projection.
- We did not make an adjustment to Base Plan claims as a result of this exemption. It is reasonable to expect that there may be a reduction in claims as a result of this exemption, which would decrease the premium assessment.
- As a sensitivity test, we looked at if all active military spouses (31,400) worked and received average wages ($64,600). The premium assessment would rise to 0.671% under this test.

VETERANS RATED 70% DISABLED OR ABOVE

We analyzed the impact of allowing veterans with a 70% or higher disability rating to opt out of the WA Cares Fund by carving out 100% of the premium we assume would have been collected from this cohort under the Base Plan. Disability rating is the rating assigned to veterans with service-connected disabilities, and determines the level of disability compensation a veteran is eligible for through the U.S. Department of Veteran Affairs (VA), where a higher disability rate corresponds to being eligible for more benefits[4].

[2] *Military spouses fact sheet.* Department of Labor. Retrieved October 7, 2021 from https://www.dol.gov/sites/dolgov/files/WB/mib/WB-MilSpouse-factsheet.pdf

[3] *DOD to induct new partners into Military Spouse Employment Partnership.* U.S. Department of Defense. Retrieved October 7, 2021, from https://www.defense.gov/News/Releases/Release/Article/2438540/dod-to-induct-new-partners-into-military-spouse-employment-partnership/.

[4] *About VA disability ratings*. Veterans Affairs. Retrieved October 29, 2021, from https://www.va.gov/disability/about-disability-ratings/.

Table 2
Washington Office of the State Actuary
70% Disabled Veteran Exemption
Exclude 100% of Premium, Retain 100% of Claims [1]
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.664%	N/A
Exempt 70%+ Disabled Veterans	0.669%	0.005%

[1] To test the impact on the premium assessment of exempting veterans with a 70%+ disability rating, we excluded 100% of the premiums assessed to these veterans. Given these veterans will have the choice to participate or opt out, we retained 100% of the modeled claims due to the uncertainty of adverse selection as one possible scenario. The estimated premium assessment could be different depending on the actual level of adverse selection.

We used the following assumptions to model the estimated impact to the premium assessment for exempting 70%+ disabled veterans:

- We estimated that there were approximately 22,600 employed veterans with a 60% of higher disability rating living in Washington.[5] Due to the data that was available, we used a 60% or higher disability rating threshold instead of the requested 70% threshold.
- We assumed this population had average wages that are comparable to average Washington wages.
- We used the 2022 counts and wages to calculate a "revenue adjustment," which we use to carve out the payroll taxes that would have been collected from disabled veterans. We apply the same adjustment to revenue in every year of the projection.
- We did not make an adjustment to Base Plan claims as a result of this exemption. It is reasonable to expect that there may be a reduction in claims as a result of this exemption, which would decrease the premium assessment.

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 additional alternatives to the 2020 Baseline 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.

[5] U.S. Bureau of Labor Statistics. (2021, March 18). *Table 7. employment status of veterans 18 years and over by presence of service-connected disability, reported disability rating, period of service, and sex, August 2020, not seasonally adjusted.* U.S. Bureau of Labor Statistics. Retrieved October 27, 2021, from https://www.bls.gov/news.release/vet.t07.htm.

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 Washington 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 February 26, 2020, apply to this information.

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Luke, please let us know if you would like to discuss further or have any other questions.

Sincerely,

Christopher J. Giese

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Principal and Consulting Actuary

CJG/bl