

# WA Cares Fund

# Risk Management Framework



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**LTSS Trust Commission**

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# WA Cares Fund Risk Management Framework

## Executive Summary

WA Cares Fund, known as the Long-Term Services and Supports Trust enacted in RCW 50B.04, is a contributory long-term services and supports insurance program with a lifetime maximum benefit of \$36,500 (in its first year) for all eligible Washington employees. It is currently financed by an employee premium of 0.58% of wages. Individuals who have met the WA Cares Fund work and contribution requirements of 10 years with no more than a 5-year interruption (or 3 out of the last 6 years at the time of application), and who need assistance with a qualifying number of activities of daily living, may claim WA Cares Fund benefits from approved providers. WA Cares Fund is a cross-agency program administered collaboratively by the Department of Social and Health Services (DSHS), the Employment Security Department (ESD), and the Health Care Authority (HCA). The Office of the State Actuary performs actuarial valuations and makes recommendations to maintain trust solvency. On January 1, 2022, premium assessments begin for covered workers, and self-employed individuals can begin opting in. ESD will begin collecting premiums from employers on April 1, 2022. On January 1, 2025, DSHS will begin paying benefits to providers on behalf of eligible beneficiaries.

WA Cares Fund is overseen by the 21-member LTSS Trust Commission (the Commission). Per Chapter 50B.04.030 (4)(g) RCW, the LTSS Trust Commission shall advise the Legislature on actions necessary to maintain WA Cares Fund solvency. The Commission's recommendations are guided by the joint goals of maintaining benefit adequacy and maintaining Trust solvency and sustainability.

In October 2020 the Office of the State Actuary made a recommendation to the Commission to establish a risk management framework for the WA Cares Fund program that is consistent with the program's financial goals. At their December 2020 meeting, the Commission established a workgroup to propose a risk management framework.

This WA Cares Fund Risk Management Framework was approved by the Commission on November 10, 2021, and includes:

- Funding goal (desired outcomes for the program)
- Risk management approach (to support the funding goal)
- Risk management reporting and metrics (to support and inform the approach)
- Response strategies (when the funding goal is not met or is threatened)
  - Strategic response
  - Potential future policy actions
- Sharing the risk management framework with other entities

# Risk Management Framework

## Funding Goal

The Commission adopted the following funding goal for the WA Cares Fund:

- Provide secure and meaningful benefits at the lowest expected cost for beneficiaries now and in the future.

## Risk Management Approach

The adopted risk management approach allows decision-makers the opportunity to operate in phases by observing early program data and experience before recommending immediate changes to manage risk. Over the long-term the approach takes into account the accuracy of long-term forecasts, the credibility of emerging experience, and proactively works towards achieving a fully funded status, including a margin, over the measurement period (currently 75 years). (See Figure 1) Achieving a 100% funded status means the expected amount collected via premiums, and the investment income on those premiums, is projected to be sufficient to cover full benefits to eligible beneficiaries and program expenses over the measurement period.

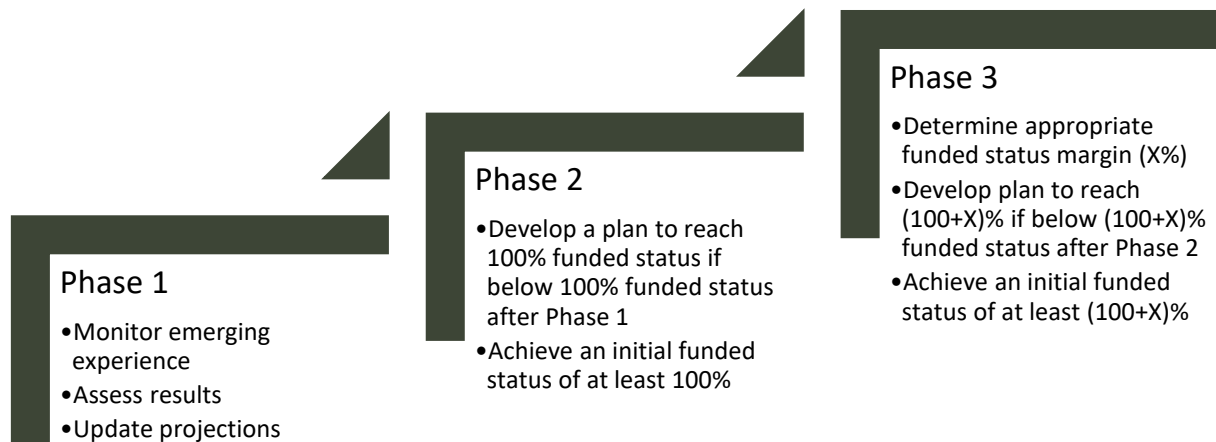


Figure 1: Risk Management Approach

Program experience will be monitored by the Commission, Office of the State Actuary and partner agencies, and updated projections will be conducted during Phase 1, which is anticipated to end no sooner than the end of 2026. This will allow time for credible premium data to be gathered and some early benefit utilization experience. This approach considers policy issues and program parameters that are currently being implemented and clarified.

Program monitoring and actuarial analysis will be an ongoing activity throughout Phases 2 and 3. While Phase 1 is anticipated to end no sooner than the end of 2026, the anticipated length of time spent in Phase 2 or 3 is unknown at this time. It may depend largely upon the outcome of Phase 1, including how early experience compares to what was assumed, and the results of future updated projections. The goal of Phase 2 is to reach 100% funded status and the goal for Phase 3 is to determine an appropriate margin and achieve that elevated funded status. A margin, or cushion, allows the program to be better equipped to handle an adverse event, such as lower than expected investment returns or higher than expected program disbursements, without driving immediate implementation of a response strategy. If at the end of Phase 1 the trust is at 100% funded status, then the Commission would proceed to Phase 3. Response strategies may be recommended by the Commission during any phase to support meeting the goals of a particular phase.

The adopted risk management approach is based on the Actuarial Control Cycle. This cycle offers a systematic approach to ongoing analysis of fund solvency and risk management of the WA Cares Fund. Looking ahead, this control cycle, shown below

(see Figure 2), is expected to be the foundation for regular risk management reviews within the phases described above.

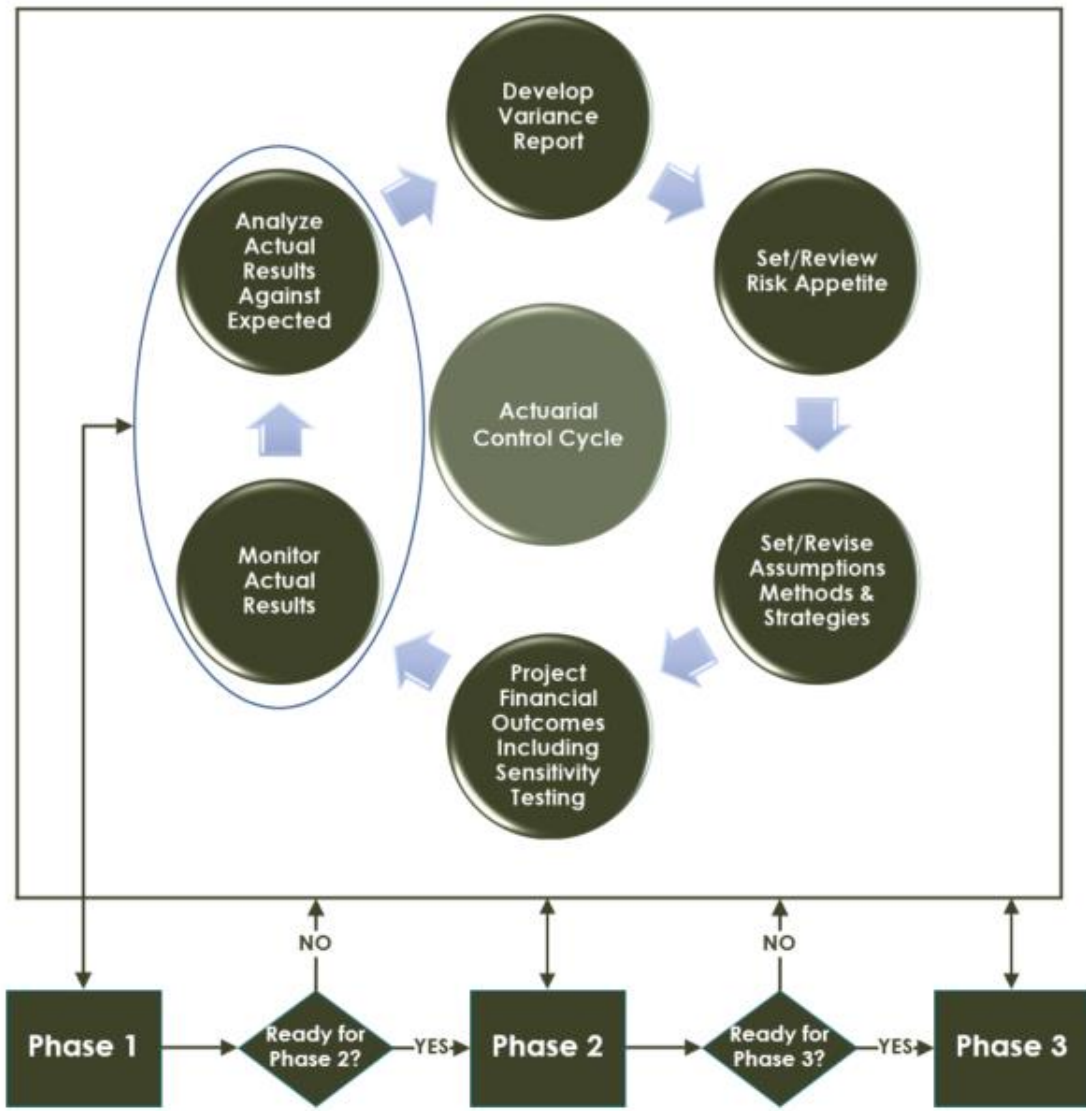


Figure 2: Actuarial Control Cycle within the Risk Management Framework

External factors influence this control cycle and will be factored in at the relevant steps and points in time. For example, the economic environment (inflation, wage growth, etc.), political environment, (a constitutional amendment affecting investment strategies), Commission recommendations and stakeholder feedback (program changes in rule, statute, or benefit administration) will impact assumptions, methods, and strategies. This is an iterative process beyond the risk management framework approach and supports ongoing program analysis and results monitoring.

There is no specific starting point in the control cycle. For WA Cares, some of the items in the cycle have already been performed, e.g., “Project Financial Outcomes Including Sensitivity Testing”, some are still in process, e.g., “Set/Review Risk Appetite”, and some are still to be performed, e.g., “Analyze Actual Results Against Expected.” The cycle is an iterative process and may be completed multiple times before moving onto the next phase.

## **Risk Management Reporting and Metrics**

Consistent reporting and metrics support the WA Cares funding goal and overall risk management approach. This is comprised of both actuarial reporting and evaluating the meaningfulness of benefits over time. Reporting provides insight to measure, monitor and communicate about the solvency of the WA Cares Fund. Reporting and metrics may evolve as the program matures. The extent to which decision-makers need data to inform any recommended changes to program parameters may also impact reporting.

### **Actuarial Risk Reporting and Metrics**

To monitor and evaluate the security of program benefits, the program will report risk metrics like program projections, funded ratio calculations, and sensitivity analysis. The most current actuarial reports including risk metrics and analyses are available on [OSA's WA Cares Fund](#) webpage.

### **Meaningfulness of Benefits Reporting and Metrics**

To monitor and evaluate the meaningfulness of program benefits over time, and consistent with the funding goal, the program will report benefit value metrics. These metrics will initially include a comparison of the WA Cares Fund lifetime maximum to median annual costs of four different types of long-term care supports and services (nursing facility, assisted living facility, home health aide, and adult day health care) and average length of long-term care when needed.

### **Data Sharing**

To inform future reporting, information will be collected by partner agencies. Employment Security Department (ESD) will collect and provide premium collections and emerging experience, Department of Social and Health Services (DSHS) will provide analysis to support benefit value comparisons consistent with the funding goal, along with beneficiary demographics and benefit utilization. This information will all be used to evaluate program risk and inform updated projections consistent with the risk management framework.

## **Reporting Frequency**

Actuarial valuation reports will be completed on a biennial basis given statutory requirements. OSA will also release regular program solvency reports and recommendations to assist the Commission and the LTSS Trust Council. The Washington State Investment Board (WSIB) will be investing the Trust funds and monitoring and reporting investment experience. Emerging experience reports and comparisons will be made available more frequently to evaluate differences from assumptions and actual experience.

## **Response Strategies**

When the program's funding goal is not met or threatened, there are options available for decision-makers to affect policy and ultimately program solvency. Some options may be more strategic in nature while others may be viewed as policy actions. For example, a strategic response strategy available in any phase could be a Commission recommendation to amend the state constitution concerning the investment of LTSS Trust funds to increase revenue and finance benefits. On the other hand, more tactical policy actions may be more appropriate for consideration in later phases of the risk management framework, when the program can rely on updated projections based on emerging program experience, such as actions that help achieve a funded status margin.

At a high-level policy actions can either reduce benefit expenditures or increase program revenue. Policy options may be tailored to meet specific goals or address policy considerations within phase 2 or 3. Potential policy actions to reduce expenditures could involve restructuring benefits in some fashion or limiting the adjustment of the benefit unit for inflation. On the other hand, increasing program revenue may include a recommendation to increase the premium collection rate. Figure 3 provides an overview of the potential strategies or actions available to the Commission by phase.



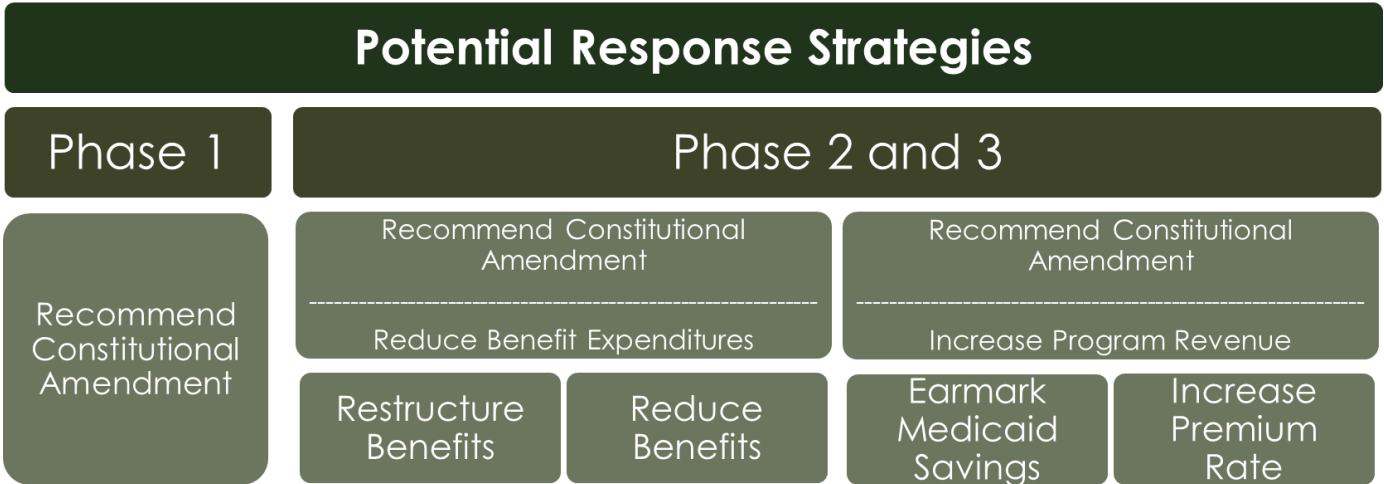


Figure 3: Summary of Strategic Responses and Policy Actions by Phase

### Sharing the Risk Management Framework with Other Entities

Key entities are impacted by the WA Cares Fund risk management framework. It is important to keep statutory roles and timing requirements in mind to support the various needs and ongoing risk management. To that end, this risk management framework will be shared with ESD, DSHS, HCA, the Pension Funding Council and the LTSS Trust Council when that convenes. Any updated versions will also be shared accordingly. The roles and timing of key activities and expectations are summarized below in Figure 4, while a more detailed description of duties is outlined within [RCW 50B.04](#).

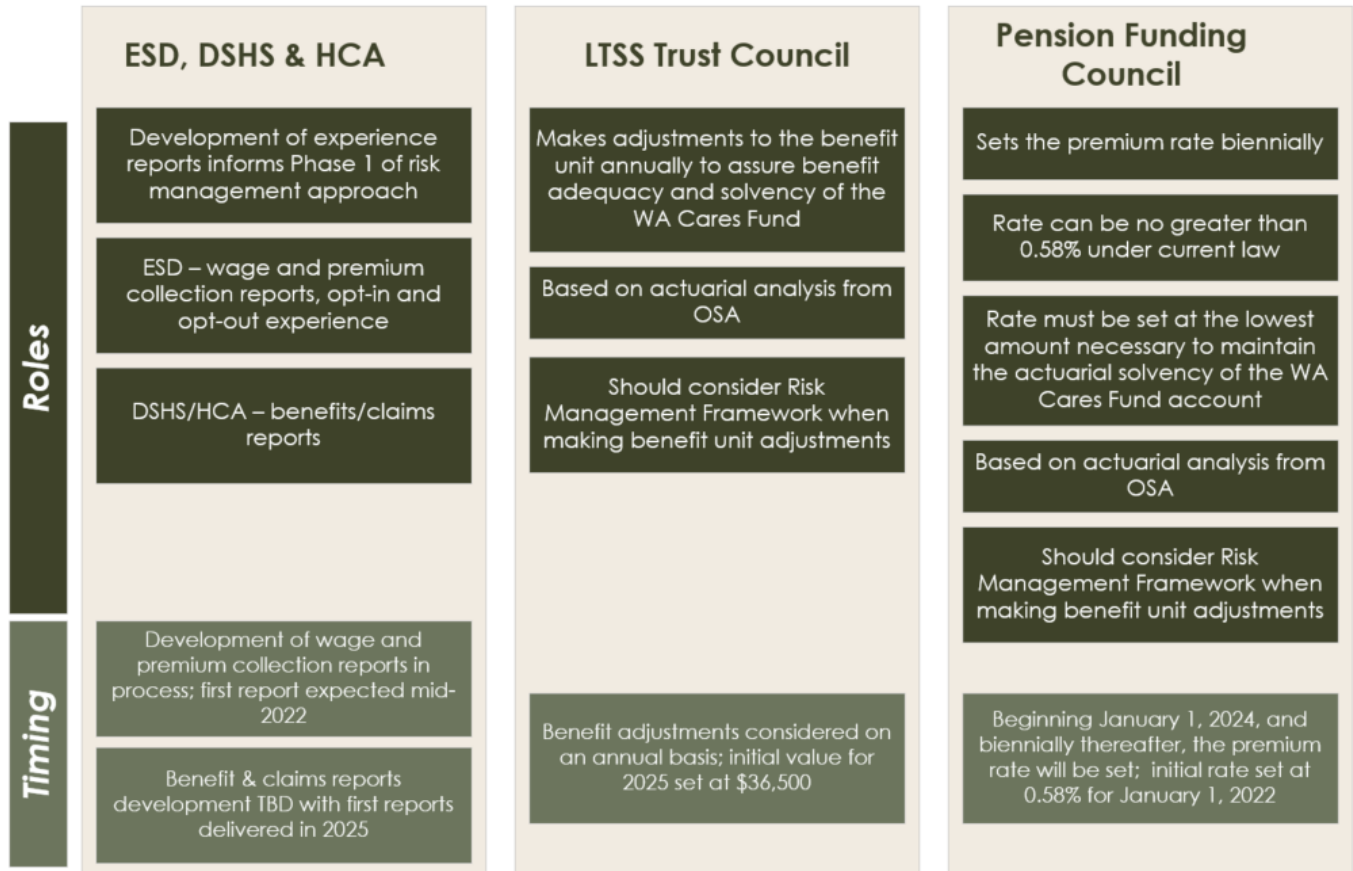


Figure 4: Roles and Timing of Key Entities Impacted by the Risk Management Framework