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Luke Masselink, ASA, EA, MAAA
Senior Actuary
Washington Office of the State Actuary
PO Box 40914
Olympia, WA 98504

[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 Study¹](#) 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 Claims¹
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 benefits⁴.

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% or 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.



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

Sincerely,

A handwritten signature in black ink that reads "Christopher J. Giese".

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

CJG/bl