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Luke Masselink, ASA, EA, MAAA  
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Washington Office of the State Actuary  
PO Box 40914  
Olympia, WA 98504  
Sent via email: [luke.masselink@leg.wa.gov](mailto:luke.masselink@leg.wa.gov)

## Re: Preliminary Feasibility Analysis – Private Market Opt-Out Recertification

Dear Luke:

Per your request, we modeled the impact of the WA Cares Fund potentially introducing a private market opt-out recertification provision to the program.

**We prepared the estimates in this letter to assist in evaluating the viability of selecting 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.**

### RESULTS

We analyzed the potential savings or costs of introducing a recertification provision by analyzing the impact of adding back into the program (“carve-in”) different levels of premium and claims that we removed from our baseline projection associated with approved exemptions under the private market opt-out. Since the final design of the recertification provision and the impact to participation of a recertification requirement is unknown, we provide Table 1 below showing a number of premium and claims carve-in scenarios. These scenarios are intended to help understand the potential savings or costs under a general structure where individuals with approved exemptions must periodically show proof they have maintained their long-term care policy no less frequently than every three years.

**Program parameters that introduce choice and that are not mandatory create potential for adverse selection and uncertainty in pricing and projection estimates.** In many of our scenarios, we assume a higher level of claims than premium is carved back into the program to model potential adverse selection. There may be adverse selection associated with this requirement if the healthiest individuals and / or highest wage earners feel incentivized to maintain their exemption and remain out of WA Cares Fund while individuals with higher long-term care needs and / or lower wages reenter WA Cares Fund.

Per OSA’s and DSHS’ request, we provide estimates under two investment strategies:

1. *Baseline Investment Strategy:* Under this scenario, investment returns start at 3.5% for 15 years, grade up to 4.0% over the next 15 years, and then remain at 4.0% over the rest of the projection.
2. *Alternative Investment Strategy:* As an alternative to the baseline, we model a 70% / 30% blend between the Baseline Investment Strategy and equities, respectively. This is modeled by blending the base vector with an assumed constant 8% equity return using 70% and 30% weights, respectively.

**Table 1**  
**Washington Office of the State Actuary**  
**% of Opt-Out Cash Flows to Carve Back In**

Participation / Adverse Selection Scenario*	Incremental Impact to Premium Assessment Compared to 2022 Baseline	
	Baseline Investment Strategy	Alternative Investment Strategy
0% Premiums, 100% Claims	0.03%	0.03%
25% Premiums, 100% Claims	0.01%	0.00%
50% Premiums, 100% Claims	-0.01%	-0.02%
75% Premiums, 100% Claims	-0.03%	-0.04%
100% Premiums, 100% Claims	-0.04%	-0.06%
0% Premiums, 75% Claims	0.02%	0.02%
25% Premiums, 75% Claims	0.00%	0.00%
50% Premiums, 75% Claims	-0.02%	-0.02%
75% Premiums, 75% Claims	-0.03%	-0.04%
0% Premiums, 50% Claims	0.01%	0.01%
25% Premiums, 50% Claims	-0.01%	-0.01%
50% Premiums, 50% Claims	-0.02%	-0.03%
0% Premiums, 25% Claims	0.01%	0.01%
25% Premiums, 25% Claims	-0.01%	-0.02%
0% Premiums, 0% Claims	0.00%	0.00%

\* The percentages shown indicate the level of premiums and claims added back to the projection that were removed in our Baseline modeling due to individuals opting out of WA Cares Fund through the private market exemption. For example, "25% Premiums, 50% Claims" indicates we carve back in 25% of the premiums removed and 50% of the claims removed that were estimated under our Baseline modeling of the private market exemption impact.

As shown in Table 1, our modeling suggests that a recertification provision may generate between a -0.6% and a +0.03% basis point impact to the 2022 baseline level premium assessment required depending on the investment strategy and the level of premiums and claims carved back into the program. The incremental premium assessment change presented in Table 1 is relative to a "baseline" where there is no recertification requirement.

We selected different illustrative scenarios where more claims are carved back into the projection compared to premiums to highlight the potential impact of adverse selection. Scenarios where we include significantly more claims than premium (e.g., 0% Premiums, 100% Claims) represent more "extreme" tests of adverse selection; however, we include as part of the range of scenarios tested to help the reader gauge the impact to the program under more unfavorable modeling assumptions given the uncertainty around the volume and characteristics of the individuals that could rejoin WA Cares Fund due to the recertification requirement. Readers should consider the reasons individuals chose to opt out of the program and the factors leading to individuals possibly reentering WA Cares Fund when interpreting the different levels of adverse selection illustrated in Table 1.

## METHODOLOGY AND ASSUMPTIONS

The information in this letter should be considered along with the sources and methodology used in our [2020 LTSS Trust Actuarial Study](#)<sup>1</sup> dated December 14, 2020 (2020 Actuarial Study). The starting Base Plan for this letter relies upon the Base Plan included in the 2020 Actuarial Study, after making the following updates.

- We updated many of our assumptions to use the most recent data available, including:
  - 2022 Old Age, Survivors, and Disability Insurance (OASDI) Trustee Report
  - U.S. Bureau of Labor Statistics (BLS) data reflecting the ratio of Washington-to-nationwide wages and income

<sup>1</sup> 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>

- Genworth cost of care trends
- Washington State Employment Security Department (ESD) data on the counts and wages of individuals as of March 1, 2022 who have elected to opt out of the program via the private market exemption
- The latest Milliman Long Term Care Guidelines
- We also updated our modeling to reflect program updates, since the 2020 Actuarial Study was performed, including:
  - Opt out option for various populations, including workers with non-immigrant visas, military spouses, veterans with a 70%+ service-connected disability, and individuals who work in Washington but live out-of-state
  - Addition of ground rules for self-employed opt in participation
  - Delay of the program, such that premium collection will begin July 1, 2023 and benefits will become available July 1, 2026
  - Removal of the requirement that individuals' disability onset must occur after age 18
  - Alignment of the projected investment returns with the Washington State Investment Board's (WSIB's) planned investment strategy and target returns

All other 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.

To model the scenarios outlined in this letter, we took the following steps:

1. Calculate an alternative “mandatory” projection assuming no private market opt-out took place.
2. Compared the cash flows from the baseline model and the mandatory model to isolate the potential cash flows attributable to the individuals who have opted out through the private market exemption.
3. To generate each scenario provided in Table 1, we assume a percentage of the claims and premiums calculated in step 2 are added to the baseline cash flows. We recalculate the level premium assessment required under each scenario.

### 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 our Base Plan in our 2020 Study. To the extent the alternatives shown in this letter would increase the administrative expenses of the program as a percentage of premiums or claims, 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 report 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 or create a legal liability to any third party. This communication must be read in its entirety.



This information provides the potential cost of introducing a private market opt-out recertification requirement to the WA Cares Fund relative to an updated version of the 2020 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 ESD, 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 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, FSA, MAAA  
Principal and Consulting Actuary

CJG/tlg