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360.786.6140
state.actuary@leg.wa.gov
leg.wa.gov/osa

Executive Summary of 2022 Actuarial Analysis

January 2023

The analysis and commentary below are meant to provide additional context and considerations for the WA Cares Fund program. It is based on the actuarial analysis prepared by Milliman. Please refer to Milliman's 2022 Study for their complete analysis, assumptions, and certification.

No singular graph or table is sufficient to draw concrete outcomes on the future solvency of the WA Cares Fund. Please refer to the Office of the State Actuary (OSA)'s WA Cares Fund webpage for our most recent Report on Trust Solvency, which includes program recommendations to achieve and maintain solvency, as well as the Long Term Services and Supports (LTSS) Trust Commission's Risk Management Framework (RMF), which provides guiding principles to manage program risk.

Background

The state's WA Cares Fund program is scheduled to begin collecting premiums from covered workers starting July 1, 2023, with eligible beneficiaries receiving benefits starting July 1, 2026. For more information on the WA Cares Fund program, we encourage you to visit the program's website.

Milliman prepared a 75-year projection (2023-2098) to model program revenue and expenditures. Revenue comes from covered worker's premiums and the investment returns on those premiums. Expenditures refer to program benefit payments and expenses. Milliman performs multiple scenarios to test program solvency.

Based on the projected expenditures, Milliman calculates a "level required premium rate" that, when combined with assumed investment returns, will provide sufficient revenue to pay for all program expenditures during the projection period. Their analysis does not change the premium rate set in statute at 0.58 percent of covered employee wages, nor does it represent a recommendation to change that rate. Instead, Milliman's financial projections put the statutory rate in context as they test program solvency under various scenarios. A level required premium rate equal to or less than 0.58 percent for a given scenario indicates the fund is projected to have sufficient assets to pay full program expenditures during the entire projection period for that given scenario.

Milliman prepared key scenarios that are labeled the Baseline and Base Plan analysis. The Baseline analysis is presented as a range of required premium rates and reflects

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variation in the calculated premium rate due to uncertainty from voluntary participation components[1] and the length of the claim adjudication period[2].

Alternatively, the Base Plan analysis reflects a single point estimate for the required premium rate and one scenario within the Baseline range. It is not meant to be a "most likely" scenario but serves as an anchor point for performing sensitivity and pricing program changes.

Summary of Results

Based on *Milliman's 2022 WA Cares Fund Actuarial Study* (2022 Study), the program is projected to have sufficient assets to pay full benefits and expenses during the entire 75-year projection period under most scenarios, including the Base Plan scenario. Milliman identified scenarios that, without corrective action, could lead to the program having insufficient revenue to provide for full program benefits over the entire projection period.

Milliman's 2022 Study determined a Base Plan premium rate of 0.57 percent. This rate does not include any margin for potential future adverse experience. They also determined a Baseline premium rate that ranges from 0.52 percent to 0.63 percent.

Under the Baseline analysis, Milliman estimates the number of covered workers that will begin paying premiums on July 1, 2023, will range from 2.7 million to 3.4 million.

Milliman's prior study, performed in 2020, did not result in a Base Plan scenario that projected a fully solvent program. The following figure summarizes the changes Milliman made since that study and the resulting impacts to the required Base Plan premium rate. Please see Milliman's 2022 Study for more information about these changes.

Figure 1:
Washington Office of the State Actuary
Walkthrough from 2020 Study
Level Premium Assessment Required

Test	Level Premium Assessment Required	Impact from Previous Step
2020 Study Baseline*	**0.51% - 0.71%**	
2020 Study Baseline - "Base Plan" for "Current Law" Scenario	**0.66%**	
Changes due to clarifications of program	0.60%	-0.07%
Changes to WA Cares Fund plan design	0.63%	0.03%
Changes to key assumptions	0.62%	-0.01%
Update to investment strategy	0.57%	-0.05%
2022 Study Baseline - "Base Plan"	**0.57%**	
2022 Study Baseline	**0.52% - 0.63%**	

** The 2020 Study Baseline range reflected testing of various participation scenarios and investment strategies.*

[1]*Revised Code of Washington (RCW) 50B.04.055 provides for certain voluntary exemption criteria, rules, and procedures for notification and discontinuation of exemptions.*
[2]*RCW 50B.04.060 requires the Department of Social and Health Services (DSHS) to determine eligibility of benefits within 45 days of receipt of a request by a beneficiary to use the benefit and to establish criteria to become an eligible beneficiary. Actual time to review the request may vary from claim to claim and rulemaking on the criteria for eligibility will depend upon adopted rules and procedures of the DSHS.*

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Looking at the Base Plan scenario more closely, and shown in Figure 2 below, in the early years of the program (roughly 2023-2052), Milliman projects premium revenue to exceed expenditures. That positive cash flow will be invested by the Washington State Investment Board (WSIB) and generate additional funds to cover future program expenditures. This approach allows the program to partially prefund those expenditures. Under current law, program investments are limited to lower risk, non-equity asset classes. Consistent with their current investment policy, WSIB intends to invest the premium revenue in a diversified fixed-income portfolio.

In the later years of the projection (roughly 2052–2096), Milliman projects annual program expenditures to exceed annual premium collection. While the fund will continue to earn investment returns during this phase, the program will begin to spend down the accumulated value of past premium collections (reserves).

In the final years of the projection (2097-2098), Milliman projects that annual premium revenue will once again exceed annual program expenditures. This reversal in the later years is primarily due to assumed wage growth (which projects premium revenue growth) exceeding assumed inflation (which projects growth in the maximum program benefit).

Figure 2 - Base Plan Projected Account Balance, Premiums, and Expenditures by Fiscal Year (*Dollars in Millions*)

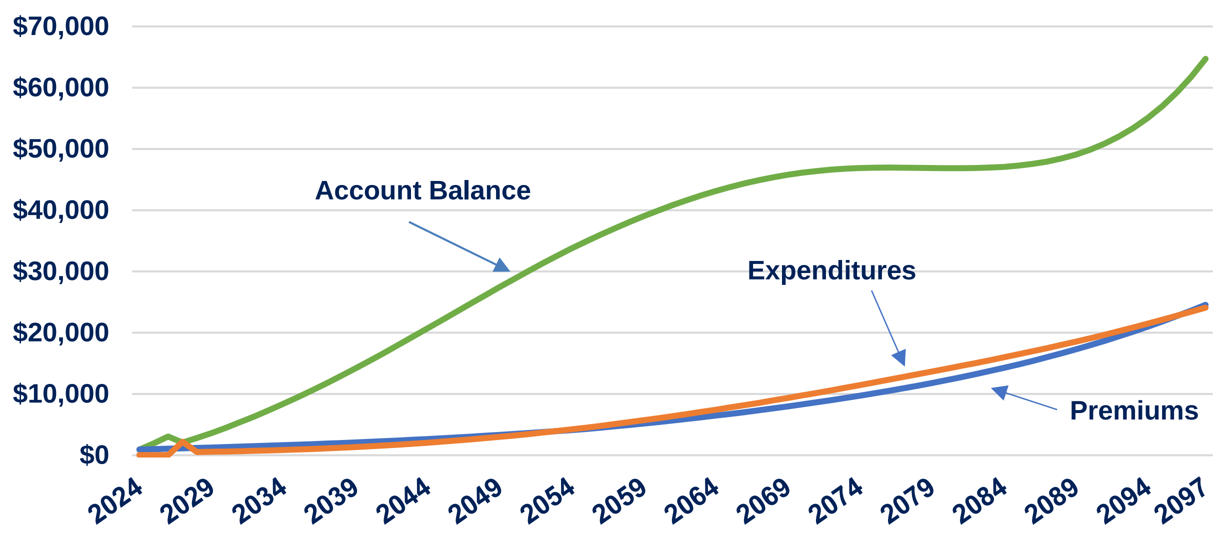


Table 1 compares the present value of expected future non-investment revenue to the present value of expected future expenditures. These present values reflect an assumed nominal investment return of 3.85 percent per year. Using this assumed return, the program has a 75-year projected actuarial reserve of 3.7 billion at July 1, 2023. The actual reserve could be more or less depending on future experience, including, but not limited to, actual investment returns and annual premium collections.

Table 1: 75-Year Projected Position (Base Plan Scenario)		
(Present Values as of 7/1/2023; *Dollars in Billions*)		
a	Present Value of Future Covered Wages	$16,961.6
b.	Premium Rate	0.58%
c.	Present Value of Future Premiums (a x b)	98.4
d.	Market Value of Assets	0
e.	**Present Value of the Projected Fund (c + d)**	**$98.4**
f.	Present Value of Future Benefits	88.2
g.	Present Value of Future Expenses	6.5
h.	**Present Value of Future Expenditures (f + g)**	**$94.7**
i.	**Projected Actuarial Reserve/(Deficit) (e - h)**	**3.7**
j.	**Ratio of Projected Fund to Future Expenditures (e/h)**	**104%**
k.	Assumed Investment Return for Present Values	3.85%
l.	Projected Account Balance Depletion*	N/A

**Depletion year based on Milliman's analysis.*

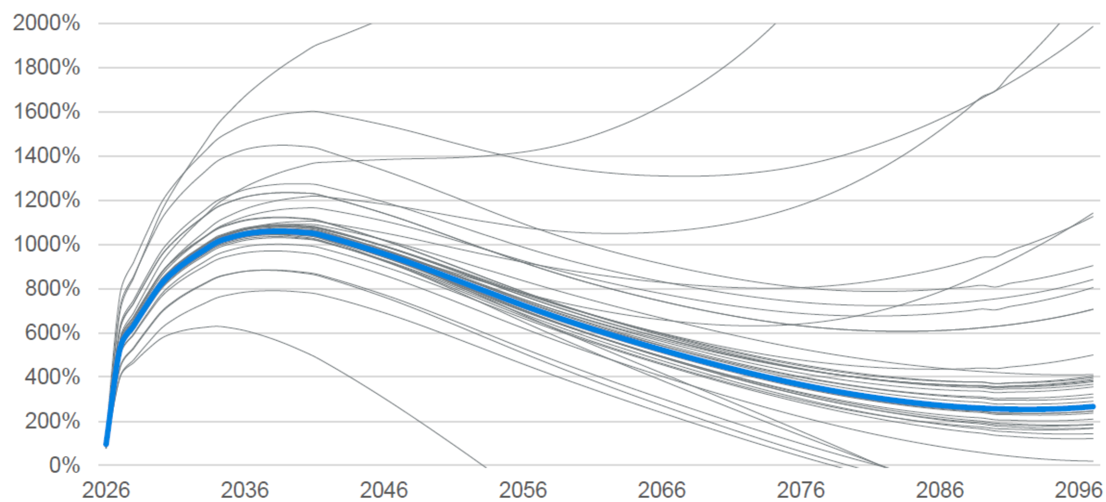
Assumption Sensitivities

While a lot of time went into selecting the assumptions that are relied on in the Base Plan and Baseline analyses, actual experience will inevitably deviate from what is assumed.

The following figure from Milliman's 2022 Study shares multiple financial projections. In them, Milliman varied key economic and demographic assumptions, to test how sensitive the results were under different assumptions. None of these assume any corrective action is taken. For a list of the assumptions tested, please see page 18 in Milliman's 2022 Study.

Figure 18 projects the program's fund balance as a percent of annual expenditures. The blue line represents the Base Plan scenario. Each gray line represents a separate assumption sensitivity. Most, but not all, gray lines project sufficient assets throughout the entire projection period.

Figure 18: Fund Balance as a % of Program Expenditures for Base Plan and Assumption Sensitivities



One scenario shows the fund value depleted around 2050. In this "what-if" scenario, Milliman modified multiple assumptions to show how the financial projection changes if key assumptions occurred much worse than assumed. Relative to the Base Plan scenario, this includes, but is not limited to, eligible beneficiaries going on claim earlier, lower investment returns, and higher growth in the program benefit. For a full list of assumptions, please see page 18 in Milliman's 2022 Study.

Without any corrective action, if the fund is depleted, future program expenditures would be limited to premium revenue leading to reduced program benefits and expenses.

Milliman performed another "what-if" scenario where multiple key assumptions performed better than the Base Plan scenario. That gray line shows the program trending towards a 2000 percent ratio of fund balance to annual expenditures in year 2046. Similar to the other "what-if" scenario, this scenario assumes no corrective action. Examples of potential corrective actions under this scenario could include lowering the required premium rate or increasing covered benefits.

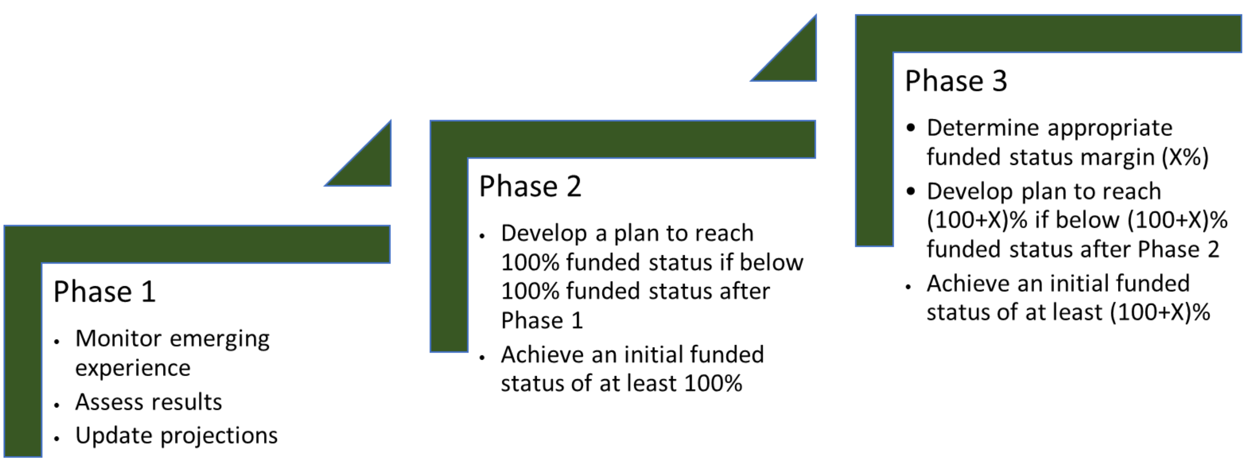
Milliman believes these both to be extreme tests, but they highlight the need for solid data collection, consistent re-evaluation of program projections, and corrective action when warranted.

Risk Management Framework

The LTSS Trust Commission's RMF provides guiding principles to help decision makers manage future uncertainty.

It includes a funding goal to, "Provide secure and meaningful benefits for beneficiaries now and into the future."

In support of that goal, it outlines a risk management approach divided into three phases, as shown below.



The WA Cares Fund is currently in Phase 1, with a focus on collecting data and comparing actual experience against what is assumed. Gathering actual experience will inform future actuarial projections and increase the credibility of assumptions. The original RMF document suggests Phase 1 end no sooner than 2026, however this language was created prior to the 18-month program delay adopted in the 2022 Legislative Session. Given the delay, we believe Phase 1 should end no sooner than 2028.

During Phase 1, program projections will be updated to reflect actual experience and other relevant modifications. It will lead to different Base Plan and Baseline outcomes from what Milliman produced in their 2022 Study. Future funded status measurements may drop below 100 percent. Future phases in the risk management framework target a program funded status to be at or above 100 percent. If the program's funded status heading into Phase 2 were to fall below 100 percent, that would mean the Base Plan premium rate would not be projected to be sufficient to pay full program expenditures during the entire projection period and the program would have a negative projected actuarial reserve.

Three strategies to reduce or eliminate a negative projected actuarial reserve would be:

- Increase investment returns;
- Decrease future benefit expenditures; and
- Increase the premium rate.

The timing of when action is taken also has a significant impact on the strategies required to eliminate a projected negative reserve. Typically, the later the response, the larger the required corrective action.

The RMF includes more specific strategies to manage program solvency.

Caveats and Limitations

The information above is meant to provide additional context for the WA Cares Fund status. We believe the assumptions and methods used are reasonable and appropriate for this purpose. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. We will update this information to reflect relevant changes to assumptions or plan experience. Please replace this summary with a future revised version when available. We intend for this summary to be used for informational purposes only and it should not be relied on to make decisions impacting the WA Cares Fund.

OSA prepared the above summary based on *Milliman's 2022 WA Cares Fund Actuarial Study*. We encourage you to submit any questions you might have on the information above to our e-mail address at state.actuary@leg.wa.gov.