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Senior Actuary
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PO Box 40914
Olympia, WA 98504
Sent via email: luke.masselink@leg.wa.gov

Re: Analysis of House Bill 1026

Dear Luke:

Per your request, we analyzed the potential fiscal impact of House Bill 1026 (HB 1026).[1] on WA Cares Fund. This bill proposes allowing a qualified individual to share his or her WA Cares Fund benefit with a spouse, regardless of whether the spouse is also a qualified individual. In this letter, we estimate the potential fiscal impact to the WA Cares Fund program if HB 1026 is enacted and we provide high-level information related to "shared care benefits" in the private insurance market for contextual background.

For purposes of this analysis, we examine the fiscal impact on WA Cares Fund by testing the potential change to projected benefit payments (i.e., claim payments). The results were developed off of the Base Scenario modeled for the WA Cares Fund Actuarial Valuation as of June 30, 2024.[2] (2024 Actuarial Report). The 2024 Actuarial Report should be read in its entirety in combination with this deliverable.

HB 1026 BACKGROUND

HB 1026 proposes allowing a qualified individual to share his or her WA Cares Fund benefit with a spouse, regardless of whether the spouse is also a qualified individual. We also assume the spouse definition includes domestic partners per guidance from the Washington Department of Social and Health Services (DSHS). As an example using 2026 benefit limits, a couple with two qualified individuals would have an initial shared pool of WA Cares Fund benefits of $73,000, while a couple with one qualified individual would have an initial shared pool of $36,500. Making benefits sharable adds costs to the program for the following reasons, all else equal:

- Incidence, or the probability of a claim being incurred, is higher since some non-qualified individuals will now be eligible for benefits if they are a spouse to a qualified individual
- Benefits will be used sooner, more quickly, and more completely if they can be drawn upon by two individuals
- The utilization of benefits is expected to increase due to the increased shared benefits, since insureds with larger benefit pools tend to go on claim sooner and stay on claim longer

ACTUARIAL MODELING

We modeled the incremental impact on claims of HB 1026 relative to the 2024 Base Scenario from our 2024 Actuarial Report. To calculate this, we use a simulation model to project the claim adjustments (i.e., morbidity loads) implied by adding a shared component to the WA Cares Fund benefit. It is unclear in HB 1026 if the transfer of benefits can only be exercised while both spouses are alive. Given this uncertainty, we performed our modeling two ways:

1. **Shared Care without "on death" benefit** which assumes there is no transfer at death, meaning any remaining benefit pool for an individual is terminated when that individual dies regardless of if they have a surviving spouse.

[1] https://lawfilesext.leg.wa.gov/biennium/2025-26/Pdf/Bills/House%20Bills/1026.pdf?q=20241210130343
[2] https://leg.wa.gov/media/riior0zb/report01-wa-cares-actuarial-valuation-as-of-june-30-2024.pdf

2. **Shared Care with "on death" benefit** which assumes that upon death of the first spouse, that spouse's remaining benefits will be added to the surviving spouse's benefit pool.

Figure 1 below presents the estimated shared care morbidity load, as well as the actuarial balance impact, resulting from our testing. In the context of Figure 1, the morbidity load represents the expected increase to total incurred claims due to HB 1026. **As shown in the figure, we expect that HB 1026 could increase projected claims by 25% to 40%. The impacts shown in Figure 1 are the result of specific modeling scenarios. Under select sensitivity and scenario testing, we modeled morbidity loads varying +/- 10% from the impacts shown in Figure 1. Additional sensitivity and scenario testing should be performed beyond our initial testing when considering adjustments to WA Cares Fund program features in response to changes in the projected actuarial balance.**

Figure 1
Washington Office of the State Actuary
Potential Impact of HB 1026 on 2024 Base Scenario

	Morbidity Load (Increase in Claims)*	Actuarial Balance ($billions)	Actuarial Balance (% of claims)
2024 Base Scenario		$4.4	3.5%
Shared Care without "on death" benefit	25%	-$23.2	-15.3%
Shared Care with "on death" benefit	40%	-$45.7	-26.2%

**Refers to the expected increase in total incurred claims under each scenario.*

The Base Scenario from our 2024 Actuarial Report produced an actuarial balance of $4.4 billion, or 3.5% of claims (meaning the WA Cares Fund is sufficient to pay up to 3.5% more than projected claims). Given we would expect HB 1026 to increase modeled claims by 25% to 40%, we expect HB 1026 would lead to a negative actuarial balance and put WA Cares Fund in a deficiency position. In other words:

- If HB 1026 increased expected claims by 25%, this would mean the program would be projected to be able to pay 84.7% (= 100% - 15.3%) of claims over the 75-year projection horizon.
- If HB 1026 increased expected claims by 40%, this would mean the program would be projected to be able to pay 73.8% (= 100% - 26.2%) of claims over the 75-year projection horizon.

SHARED CARE IN THE PRIVATE MARKET

The benefit proposed in HB 1026 is similar in concept to a "shared care" benefit available in the private long-term care insurance (LTCI) market, which allows one spouse or partner to use the other's available benefits if their own coverage has been depleted or offers a third independent pool the couple can share.[3] **We compared premiums for like LTCI plans with and without shared care and found the shared care plans had premiums 15% to 45% higher than their non-shared counterparts.**

There are several reasons why the morbidity loads associated with HB 1026 could be higher or lower than shared care relativities observed in the private market. For example:

- HB 1026 would allow qualified individuals to share benefits with a non-qualified spouse. In the private market, shared care benefits allow two insured individuals to share their benefits, but would typically not allow one insured individual to share benefits with an uninsured spouse. All else equal, this would cause HB 1026 morbidity loads to be higher than private market shared care morbidity loads.
- WA Cares Fund benefits represent a lifetime pool of $36,500 (as of 2026), which is a smaller lifetime pool of money than most private market plans. All else equal, this would cause HB 1026 morbidity loads to be higher than private market shared care morbidity loads, since the smaller the pool of money the more likely an individual will exhaust their individual benefits and start sharing from their spouse's benefits. This impact is dampened by the offsetting influence of smaller pools of money increasing the likelihood that the full benefit will be exhausted without any shared care, which decreases the morbidity load.

[3] https://brokerworldmag.com/2024-milliman-long-term-care-insurance-survey/

- Our modeling of the WA Cares Fund assumes general population morbidity assumptions, whereas private market modeling assumes insured population morbidity (which would be lower relative to a general population). Since we assume a relatively larger percentage of the population will trigger their WA Cares Fund benefit, this leaves less benefits available to be shared with spouses (relative to a population insured by a private LTCI plan). All else equal, this would cause HB 1026 morbidity loads to be lower than private market shared care morbidity loads.

- Morbidity loads in the private market represent loads that are to be applied to policies sold to married individuals eligible for the shared care benefit. The WA Cares Fund includes both married and single participants, where only married individuals will have increased costs under HB 1026. The overall morbidity load when viewed across the entire WA Cares Fund population will be dampened when factoring in that single individuals will not have increased claims as a result of HB 1026. All else equal, this would cause the total population HB 1026 morbidity loads to be lower than private market shared care loads.

METHODOLOGY AND ASSUMPTIONS

To perform the actuarial modeling described above, we started with all plan features, methodology, and assumptions consistent with the 2024 Base Scenario in our 2024 Actuarial Report. Detailed methodology and assumptions used to model the Base Scenario can be found in Section V of our report. We describe the methodology and assumptions used to model the incremental impact of HB 1026 below.

Shared Care Morbidity Loads

In order to model the incremental impact of HB 1026, we calculated morbidity loads using our dual-life LTC simulation model. The model measures the relative increase in claims by allowing two individuals to share their benefits.

Our dual-life LTC simulation model estimates the relative claims differences for various LTC insurance benefits that link or cover two lives. The simulation model is run for a given modeling cell twice: once without the spousal benefit and once with the spousal benefit. The ratio of the two runs can then be used to determine the morbidity cost for the spousal benefit. The simulation was run three times, with 2,000,000 lives (1,000,000 married males and 1,000,000 married females, both with the same age) for each run. The results of the three runs were averaged together to smooth out the simulation results. The morbidity load is calculated as the relative increase in the present value of incurred claims.

The model simulates monthly events for two lives. While the lives (either married or widowed) are healthy, the events of mortality or claim incidence are simulated (note that divorce is not explicitly modeled, although typically the divorce rate at the older ages is very small). Once on claim, the events of benefit exhaustion or death are simulated.

We use the model to simulate the impact of a shared care benefit on a present value basis for two separate types of couples: (1) couples with two qualified individuals who would be eligible to share a $73,000 starting pool, and (2) couples with one qualified individual who would be eligible to share a $36,500 starting pool. We use American Community Survey data to estimate the distribution of the working population in Washington that is single (for whom we assume no morbidity load), married to a working spouse, and married to a non-working spouse. We use this distribution to calculate a weighted average morbidity load to be applied across all projected WA Cares Fund benefit payments.

CAVEATS AND LIMITATIONS

This information is intended for the use of Washington Office of the State Actuary (OSA) and the Washington 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 any third party even if we permit the distribution of our work product to such third party.

This information provides estimated fiscal impacts for proposed alternative program features under HB 1026 compared to the 2024 Base Plan presented in the 2024 WA Cares Fund Actuarial Valuation provided on December 10, 2024, which should be read in its entirety with this letter. In completing this analysis, we relied on information provided by Washington State OSA, DSHS, SIB, and ESD, 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 revenue and expenditures for program features of the WA 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.

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

Sincerely,

Annie Gunnlaugsson, FSA, MAAA
Consulting Actuary

AG/zk