Office of the State Actuary
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Actuarial Status of the LTSS Trust Program, 2022-2096

June 2021[1]

The analysis and commentary below are meant to provide additional context and considerations for the LTSS Trust program. It is based on the actuarial analysis prepared by Milliman. Please refer to Milliman's 2020 LTSS Trust Actuarial 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 LTSS Trust program. Please refer to OSA's Report on Trust Solvency for our most recent program recommendations to achieve and maintain solvency.

Background

The State's Long-Term Services and Supports (LTSS) Trust program will begin collecting premiums from covered workers starting January 1, 2022. Eligible beneficiaries can begin receiving benefits starting January 1, 2025. For more information on the LTSS program, we encourage you to visit the program's website.

In the early years of the program (roughly 2022-2051), we expect the program to collect premiums that exceed the program's benefit payments and expenses (herein, the sum of benefit payments and expenses are referred to as 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, LTSS investments are limited to lower risk, lower returning non-equity asset classes like U.S. Treasuries.

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

When premiums and investment income are sufficient, the program will able to pay for all future program expenditures when due. If premiums and investment income are not sufficient, the program will likely either have to decrease future benefit expenditures or increase future premium rates to remain solvent.

Summary Actuarial Measures

If the assumptions relied on in Milliman's analysis occur as expected, we expect the following outcomes for the program from 2022 through 2096:

[1]*This document was originally published in January 2021. The current version reflects updates to some of the actuarial terminology used in this document, but none of the numerical results changed from the prior publication.*

- Assuming the continuation of the current maximum premium rate of 0.58 percent, the program will have sufficient projected assets to pay 100 percent of program expenditures through 2075.
- After 2075, assuming no changes to program benefits or the premium rate, the program will have sufficient projected assets to pay the following percentage of full benefits by calendar year:
  - 71 percent of full benefits in 2076.
  - 77 percent of full benefits in 2086.
  - 85 percent of full benefits in 2096.

The excess of the program's projected premiums over the program's unreduced projected expenditures represents a "projected actuarial reserve." If that number is negative, that means the program's projected expenditures exceed the program's projected premiums. As shown below, the Office of the State Actuary (OSA) provides scenarios where the program's 75-year negative projected actuarial reserve could be eliminated either by an immediate and uniform reduction in benefits of 9.5 percent starting in 2025 (or restructuring to achieve equivalent savings) or increasing the premium rate to 0.64 percent starting in 2022. These scenarios reflect a 2.5 percent per year assumed rate of investment return. This does not represent the best estimate investment return assumption. That will be informed by the investment policy clarified by WSIB during 2021. The information below therefore should not be used to make premium rate or benefit policy decisions. The illustrative scenarios are merely to provide additional context on the current program status. The actual reduction in benefits or increase in premium rate needed could fall outside these estimated ranges.

See Milliman's 2020 LTSS Trust Actuarial Study and the following section for additional and supporting information.

Supporting Actuarial Measures

As illustrated in Figure 1, we expect annual premium revenues to exceed annual program expenditures through 2051. During that period, the positive cash flow and assumed investment returns help grow the account balance. Shortly after that period, the account balance will begin to drop as expected program expenditures exceed annual premiums and assumed investment returns. Assuming no increase to the maximum premium rate of 0.58 percent, we expect the account balance will be depleted in 2076. After 2076, program expenditures will be reduced to incoming annual premium levels.

Figure 1 - Projected Account Balance, Premiums, and Expenditures by Calendar Year *(in $ Millions)*

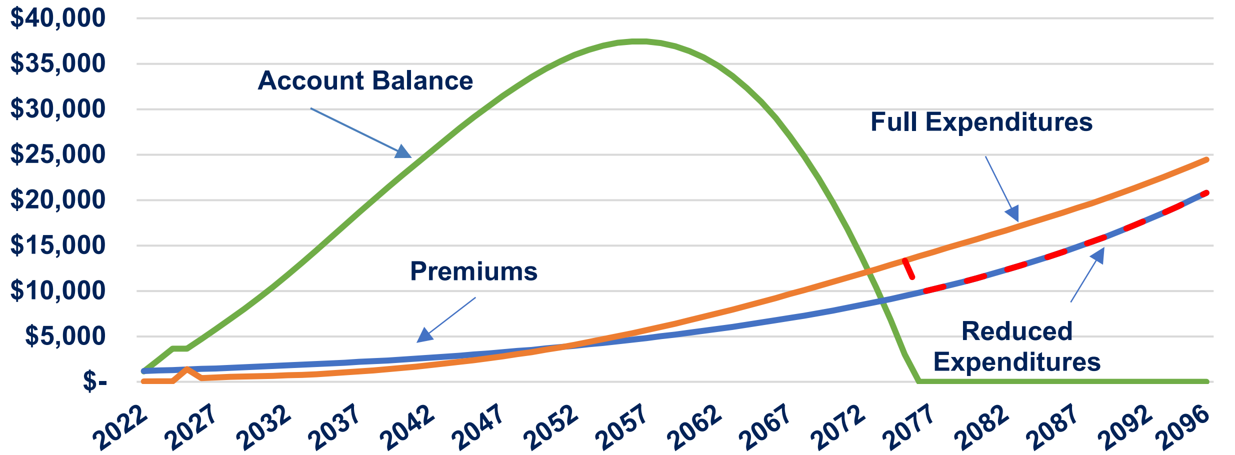

Table 1 compares the present value of expected future non-investment revenue to the present value of expected future expenditures. These present values reflect an assumed nominal investment return of 2.5 percent per year. Using this assumed return, the program has a 75-year projected actuarial reserve of ($14.9) billion at January 1, 2022. 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		
(Present Values as of 1/1/2022; *Dollars in Billions*)		
a.	Present Value of Future Covered Wages	$27,005.8
b.	Premium Rate	0.58%
c.	Present Value of Future Premiums (a x b)	156.6
d.	Market Value of Assets	0
e.	**Present Value of the Projected Fund (c + d)**	**$156.6**
f.	Present Value of Future Benefits	160.4
g.	Present Value of Future Expenses	11.1
h.	**Present Value of Future Expenditures (f + g)**	**$171.5**
i.	**Projected Actuarial Reserve (e - h)**	**(14.9)**
j.	**Ratio of Projected Fund to Future Expenditures (e/h)**	**91%**
k.	Assumed Investment Return for Present Values	2.50%
l.	Projected Account Balance Depletion Year*	2075

**Depletion year based on Milliman's analysis which assumes investment in U.S. Treasuries with projected returns that vary by year.*

Strategies to Manage Projected Actuarial Reserve

Three strategies to reduce or eliminate the negative projected actuarial reserve are:

- Increase investment returns;
- Decrease future benefit expenditures; and

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- Increase the premium rate.

As noted below, *when* action is taken has a significant impact on the actions required to eliminate a projected negative reserve.

Increase Investment Returns

Under current law, we anticipate LTSS investments will be limited to lower risk, lower returning non-equity asset classes like U.S. Treasuries. Senate Joint Resolution 8200, which was introduced in the 2021 Legislative Session, proposes a constitutional amendment that would allow WSIB greater flexibility to invest the LTSS Trust.

If this resolution passes the Legislature, it would also require approval by a public vote in November 2021 before it becomes law. If the voters approve the measure, we anticipate the LTSS Trust account will have the flexibility to be invested in equities and other forms of higher risk, higher returning asset classes. Higher levels of investment income will decrease required program premiums. Higher levels of investment risk increase the chance that future investment returns may fall short of expectations. Lower levels of investment risk are likely to yield lower levels of investment income, but decrease the likelihood that returns fall short of expectations. Lower levels of investment income will increase required program premiums.

Based on the most recent actuarial analysis available, if this resolution passes and the voters approve the measure, Milliman assumed an investment mix of 30 percent in equities and 70 percent in fixed income. Based on this investment mix and Milliman's investment return assumptions, it would eliminate the negative projected actuarial reserve if all assumptions are realized.

Decrease Future Benefit Expenditures

Using the 2.50 percent assumed investment return from Table 1, if all other assumptions are realized and there is no change to the premium rate, the estimated immediate and uniform benefit reduction to eliminate the 75-year negative projected actuarial reserve is 9.5 percent. Alternatively, benefits could be restructured to achieve an equivalent reduction in benefit expenditures.

The reduction in benefit expenditures increases the later the reduction takes place. As noted earlier, if no action is taken, the fund is anticipated to deplete in year 2075. At that point, program expenditures would be limited to incoming annual premiums. In 2076, we estimate the program would have sufficient funds to pay 71 percent of full program benefits (a 29 percent reduction). The actual reduction in benefit expenditures needed could be more or less than the estimates shared in this section.

Increase the Premium Rate

The maximum premium rate is set in law at 0.58 percent. Assuming 2.50 percent investment returns per year, if the premium rate were allowed to increase and all assumptions were realized, the estimated premium rate needed to eliminate the 75-year negative projected actuarial reserve would be 0.64 percent starting January 1, 2022. Under current law, and varying some key assumptions from their single best estimates, Milliman estimates the required premium rate could range from 0.61 percent and

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0.71 percent to cover all future program expenditures over the next 75 years (2022 – 2097).

The actual premium rate needed could fall outside these ranges and, as noted on page 22 in Milliman's report, the later the action is taken, the larger the expected premium increase to eliminate the projected negative reserve. For example, if 0.58 percent is collected for 10 years (2022-2032), then the premium rate would need to increase to 0.67 percent for the remaining years (2032-2097). Alternatively, if 0.58 percent is collected for 30 years (2022-2052), the rate would need to increase to 0.69 percent in 2052 to cover future program expenditures through 2097.

We relied on the values in Exhibit 4 from *Milliman's 2020 LTSS Trust Actuarial Study* to prepare Figure 1 and the values in Table 1.

Caveats and Limitations

The information above is meant to provide additional context for the LTSS Trust program 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. It is for informational purposes only and should not be relied on to make decisions impacting the LTSS Trust program.

OSA prepared the above summary based on *Milliman's 2020 LTSS Trust Actuarial Study*. We encourage you to submit any questions you might have concerning the information above to our e-mail address at state.actuary@leg.wa.gov.