17335 Golf Parkway
Suite 100
Brookfield, WI 53045
USA
Tel +1 262 784 2250

milliman.com

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

chris.giese@milliman.com

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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: WA Cares Fund Program Fully Voluntary Modeling

Dear Luke:

Per your request, we modeled the potential relative impact to the WA Cares Fund required premium assessment assuming the program was fully voluntary.

The estimates provided in this deliverable are prepared to assist in evaluating the impact of adjusting WA Cares Fund to be fully voluntary. Any estimates around required program revenue are for feasibility purposes only and are not intended, and should not be used, for setting the program premium assessment.

Any reader of this letter should possess a certain level of expertise and background in actuarial projections related to financing long-term services and supports (LTSS) benefits to assist in understanding the significance of the assumptions used and the impact of these assumptions on the illustrated results. The reader should be advised by, among other experts, actuaries or other professionals competent in the area of actuarial projections of the type in this letter, so as to properly interpret the estimates. The information included in this letter should only be considered in its entirety.

BACKGROUND ON MODELING APPROACH

We understand you wish to perform initial, high-level conceptual modeling of a structure where participation in WA Cares Fund becomes fully voluntary while all other program rules remain unchanged. Under this alternative conceptual structure, participation (i.e., payment of the premium assessment) in WA Cares Fund would be completely voluntary, but program coverage would continue to be “guaranteed” as long as an individual met requirements to become a qualified individual (i.e., vested).

For purposes of completing the illustrative modeling in this letter, we performed calculations relative to the 2022 Base Plan included in our 2022 LTSS Trust Actuarial Study[1] dated October 20, 2022 (2022 Actuarial Study). Given program details regarding how WA Cares Fund would be modified to make it fully voluntary are unknown, we performed modeling where we continued to assume individuals will pay into the program over a work history similar to the 2022 Base Plan, but examined different participation scenarios where the average health status or average wage level differs from the 2022 Base Plan. If the program structure using a voluntary design differed from the conceptual design modeled (e.g., where individuals can be eligible for benefits after paying into the program for less than their full work history), the results in this letter would likewise be different.

Evaluation of a program’s rates and fund balance can be challenging when individual choice or a voluntary aspect to participation is combined with guaranteed coverage (e.g., no underwriting), since there is unpredictability related to participation rates and adverse selection. In our modeling herein, we analyzed two potential sources of adverse selection if WA Cares Fund were to transition to a voluntary structure:

- **Health status.** Individuals with current or future anticipated LTSS needs may be more likely to participate, as they have a greater likelihood of receiving benefits. Adverse selection by health status would influence the claims risk for the pool of covered individuals, and consequently, program expenditures.

[1] Giese, C. et al. (October 20, 2022). *2022 WA Cares Fund Actuarial Study*. Milliman Report. Retrieved December 20, 2023, from https://leg.wa.gov/osa/additionalservices/Documents/Report01-2022WACaresFundActuarialStudy.pdf

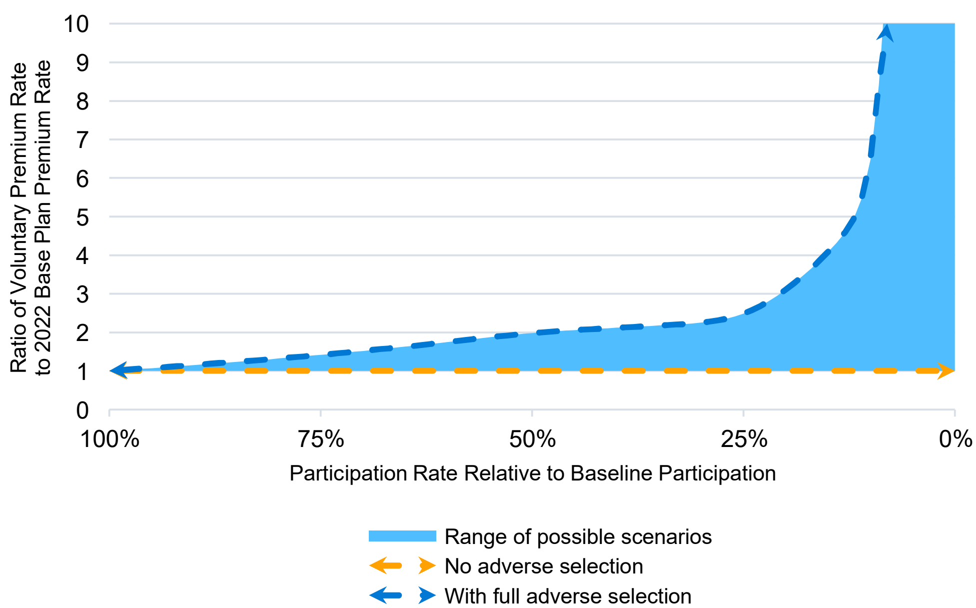
- **Wage level.** Higher wage earners may be less likely to participate because premiums are assessed to wages (with no cap) while program benefits are the same regardless of wage level. Adverse selection by wage level would impact the program revenue collected.

RESULTS

Figure 1 summarizes our modeling of the potential premium rate impact under various participation levels for a voluntary structure with guardrails requiring premium payments through an individual's full work history compared to a baseline with WA Cares Fund's current participation rules. The ratios in Figure 1 are not intended to be bounds, but rather represent a range of results under different levels of modeled adverse selection. **Depending on the participation rate and level of adverse selection, Figure 1 shows the premium rate could be similar or exceed 20 times the 2022 Base Plan estimate. In other words, if WA Cares Fund is structured to have voluntary participation and guaranteed coverage for all individuals, the premium rate will likely need to be raised significantly from current law and the interaction of the premium rate, participation, and adverse selection could lead to an insurance premium rate spiral (as discussed in the Important Considerations section).**

Please note, the results in Figure 1 assume that individuals who elected to participate would still be required to pay premiums throughout their full work history after program start (i.e., there would not be a pathway where they could pay for only 10 years, become vested, and then stop paying premiums, but remain in the program). **If a voluntary structure was created whereby individuals would only need to pay premiums for 10 years instead of over their full work histories, we would expect the required premium assessment could be more than double the premium assessments illustrated in Figure 1 (i.e., premium rates could exceed 40 times the 2022 Base Plan estimate at the lowest participation levels).**

Figure 1: Potential premium rate ratio relative to 2022 Base Plan for a fully voluntary program – individuals pay premiums over full work history



Note: Figure 1 does not provide bounds on the impact to the required premium assessment; rather, it provides a potential range of results based on modeled levels of adverse selection.

As shown in Figure 1, if *little to no adverse selection* were to occur, the required premium assessment rate may be similar to the baseline rate (0.57% in the 2022 Actuarial Study) regardless of participation rate, as represented by the orange line. In other words, the average expected expenditures and average wage base (and associated required premium assessment) are the same for both the groups of participating and non-participating individuals. However, *with full adverse selection*, the required premium assessment may increase exponentially as the participation rate decreases (as represented by the dark blue line).

The light blue shaded area in Figure 1 represents the potential range of required premium assessments, which grows larger as participation decreases. For example, at 75% participation, the required premium assessment with adverse selection is estimated to be potentially up to 1.5x the baseline premium rate (as shown on the y-axis) – meaning the premium rate could be as high as 0.86% (calculated as 1.5 x 0.57% = 0.86%). At 25% participation, the required premium assessment with adverse selection is estimated to be potentially up to 2 to 3 times higher than the baseline premium rate (i.e., the premium rate could be as high as 1.14% to 1.71%, calculated as 2 x 0.57% = 1.14% and 3 x 0.57% = 1.71%), increasing significantly thereafter as participation decreases.

Note, "100% participation" in Figure 1 refers to 100% of the 2022 Baseline participation, which reflects projected opt-outs and exemptions.

IMPORTANT CONSIDERATIONS

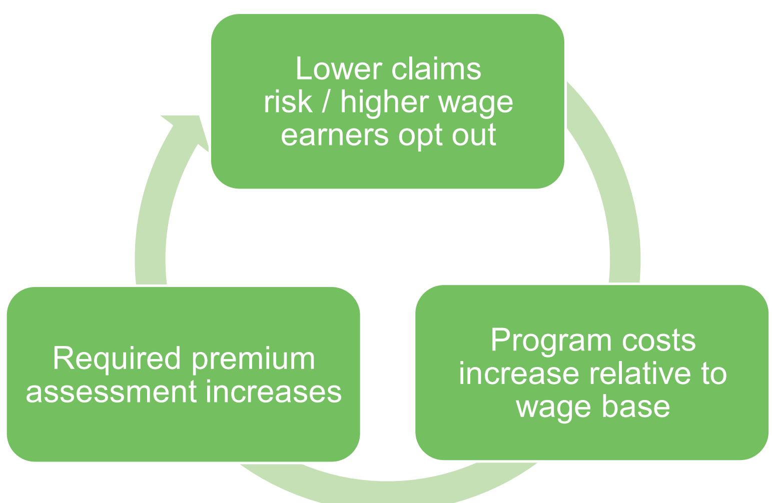
Insurance Rate Spiral

Under a voluntary structure, individuals with lower claims risk or higher wages may choose to not participate in WA Cares Fund as they evaluate their personal circumstances. If this "selection" occurs, the remaining covered individuals in the program would have higher claims risk and / or lower wages, therefore, requiring a higher premium assessment for the program. If a higher premium assessment is used, the remaining individuals would reevaluate their personal circumstances, where the next "layer" of individuals with lower claims risk or higher wages may choose to not participate.

The circular pattern of reduced participation increasing adverse selection (and required premium rates), which in turn can reduce participation starting the pattern over again, is referred to as an insurance rate spiral. An insurance rate spiral is illustrated in Figure 2 below.

Figure 2: Insurance rate spiral

In the case of an extreme rate spiral, a situation could arise where the program could not charge a sufficient rate to cover expenditures. For example, if all individuals remaining in the program are estimated to use full program lifetime benefits and their average wages are very low, the required premium assessment rate could be a large percentage of wages or even exceed wages.



Lessons Learned from Other Proposed Voluntary Programs

Voluntary programs without underwriting or other tools available to mitigate adverse selection may lack actuarial soundness (i.e., the program is more likely to become insolvent). The Community Living Assistance Services and Supports (CLASS) Act, which was introduced as part of the Patient Protection and Affordable Care Act (ACA) before ultimately being repealed, proposed the creation of a guaranteed issue and fully voluntary federal long-term care insurance program. Discussion surrounding the CLASS Act and its ultimate repeal underscores many of the challenges associated with these types of programs.

In particular, the American Academy of Actuaries (AAA) and Society of Actuaries (SOA) chairpersons jointly issued a letter to the U.S. Senate Committee on Health, Education, Labor, and Pensions summarizing critical issues related to the CLASS Act titled Actuarial Issues and Policy Implications of a Federal Long-Term Care Insurance Program.[2] Below we summarize several of the conclusions about the CLASS Act's voluntary design from the AAA and SOA's joint letter.

- A fully voluntary program with no underwriting at enrollment would likely result in significant adverse selection
- The ability to opt in or out at any time with limited guardrails would likely compound adverse selection
- The use of a short waiting period before enrollees can access benefits would likely compound adverse selection
- There would be an additional administrative burden to support education and marketing efforts to promote enrollment

While the structure of the CLASS Act and WA Cares Fund differ in many meaningful ways, the aforementioned cautions from the AAA and SOA are relevant and important to consider, should WA Cares Fund incorporate additional voluntary components in its program design.

METHODOLOGY AND ASSUMPTIONS

The underlying program design for the analysis presented in this letter is consistent with the Base Plan included in our 2022 Actuarial Study. All plan features, methodology, and assumptions are consistent with the modeling of the Base Plan in our 2022 Actuarial Study unless indicated otherwise. The results in this letter should be considered in their entirety in combination with our 2022 Actuarial Study.

To estimate the required premium assessment under various voluntary participation scenarios, we applied claim cost selection factors to different slices of the modeled population based on individuals' wages and morbidity. Selection factors were based on information from the Milliman *Long-Term Care Guidelines* and other industry general population prevalence studies.

For the *no adverse selection* scenario presented in Figure 1 (as shown by the orange line), we assumed the 2022 Base Plan premium assessment of 0.57% (as described in the 2022 Actuarial Study) would hold steady and did not model any additional adverse selection at any participation rate.

For the *with full adverse selection* scenario presented in Figure 1 (as shown by the dark blue line), we assumed the most adverse slice of the population under each participation rate scenario would be enrolled. To provide a specific example, take a 25% participation rate scenario. Under a 25% participation rate, for the high end of our results range, we assumed the individuals with both the 25% lowest wages, as well as the 25% poorest health status would be the only individuals to participate. By doing so, the 2022 Base Plan premium assessment of 0.57% (as described in the 2022 Actuarial Study) is recalibrated using the selection factors to the morbidity and wages for that 25% slice of the population.

[2] https://www.actuary.org/sites/default/files/files/publications/class_july09_0.pdf, accessed November 28, 2023.

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 any third party even if we permit the distribution of our work product to such third party.

This information provides potential impacts to the required premium assessment for WA Cares Fund assuming the program were to become fully voluntary. Scenarios are created based on variations from the 2022 Base Plan which is described in the 2022 WA Cares Fund Actuarial Study provided on October 20, 2022, which should be read in its entirety with this letter.

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 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, Annie Gunnlaugsson, and Evan Pollock 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,

Christopher J. Giese

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

CJG/bl