FREQUENTLY ASKED QUESTIONS ON WA CARES FUND SOLVENCY

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The Office of the State Actuary (OSA) prepared the following educational resource to provide key background on the WA Cares Fund[1] program actuarial projections ("WA Cares projections"). This document contains a list of questions and answers. Some answers link to an **Appendix** that provides additional information. We also hope it will help readers navigate the various publications on OSA's WA Cares Fund webpage. The information contained herein may become outdated so OSA will modify the questions and answers as necessary. Should you wish to discuss any of the information contained herein, please reach out to the office at state.actuary@leg.wa.gov.

WA Cares Fund Background

Under current law, the WA Cares Fund program will begin assessing premiums on covered workers starting January 1, 2022[2]. Eligible beneficiaries can begin receiving benefits starting January 1, 2025, and must reside in Washington State when they meet the benefit eligibility threshold. For more information on the WA Cares Fund program, we encourage you to visit the WA Cares Fund website.

The program is currently funded entirely through a premium rate assessed on covered wages, paid by covered employees as well as any self-employed individuals and employees of federally recognized tribes who opt in. The premium rate is currently 0.58 percent of covered wages, which is the maximum premium rate allowed under current law. Covered employees includes all workers in Washington State except those who have an approved exemption from the Employment Security Department (ESD). To be eligible for an exemption, a worker must have purchased a qualifying, private long-term care insurance plan prior to November 1, 2021.

OSA contracts with the consultants at Milliman to prepare actuarial analysis regarding the WA Cares Fund program. OSA also publishes reports informed by this analysis. We post all published material to OSA's WA Cares Fund webpage, including Milliman's *2020 LTSS Trust Actuarial Study*, which represents their most recent "baseline" or "base plan" analysis

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[1]*WA Cares Fund is also known as the Long Term Supports and Services Trust Program as established under Chapter 50B.04 Revised Code of Washington (RCW).*
[2]*The information in this document does not include the Governor's statement on delaying the WA Cares Fund premium assessment or House Bill (HB) 1732 from the 2022 Legislative Session. If passed, HB 1732 would delay the program by 18 months. Please see our fiscal note for potential program impacts from the proposed delay.*

reflecting the enacted law of the program. Please refer to Milliman's study for their complete analysis, assumptions, and methods.

Frequently Asked Questions

1. How does OSA define solvency?

OSA defines solvency as the ability for the program to pay full benefits and expenses. This includes evaluating solvency with a focus on the program's ability to pay full benefits and expenses during an entire projection period.

2. What is the projection period?

Milliman prepares WA Cares Fund projections over a 75-year period, initially through 2096. Other projection periods could be reasonable. However, for a new program like WA Cares, a long projection period is necessary to estimate how program solvency evolves once the population matures and there is a steady stream of beneficiaries. The projection period may change in the future.

3. How many Washington residents are expected to earn a benefit?

In 2025, Milliman projects 38,000 residents will use their WA Cares Fund benefit. After 2025, the projected number of new beneficiaries varies by year with about 100,000 projected new beneficiaries each year near the end of the 75-year projection period. For more information, please see Exhibit 4 on page 44 in Milliman's *2020 LTSS Trust Actuarial Study*.

4. When the program starts collecting premiums, how many workers are expected to pay into the program and how much premium revenue is expected to be collected?

In 2022, Milliman estimates approximately 3.5 million workers will begin paying premiums and the program is projected to collect approximately $1.2 billion in premium revenue during 2022. For more information on estimated premium revenue, please see Exhibit 4 on page 44 in Milliman's *2020 LTSS Trust Actuarial Study*.

5. How does OSA measure solvency?

Relying on Milliman's WA Cares projections, OSA produces visuals and metrics to identify if the program is projected to pay full program expenditures during the 75-year projection period. OSA also calculates a "funded status" for the program – a present value comparison of the projected fund to future expenditures over 75 years as of a given measurement date. Please see OSA's *Actuarial Status of the LTSS Trust Program, 2022-2096* and the **Appendix** for more information.

6. Based on the most recent WA Cares projections, is the program projected to cover all future expected benefits and expenses over the next 75 years?

No. Based on the latest "base plan" projection, the program is expected to be able to provide full benefits and expenses through 2075. After that, the fund is expected to collect revenue that would provide for approximately 70-80 percent of full benefits and expenses for the remainder of the projection period. More details and supporting information is available in the **Appendix**.

7. What happens if the program is not projected to be solvent?

It means the program may require changes. For example, changes to benefits or the premium rate, in order to pay full benefits and expenses. The most recent WA Cares projections estimate the program can pay full benefits and expenses through 2075. Therefore, there is time to monitor the accuracy of program projections and time before benefit reductions would occur if necessary. The LTSS Trust Commission's *WA Cares Fund Risk Management Framework* identifies a process to manage projected program solvency. For more information, please see the **Appendix**.

8. What can be done to improve projected solvency?

The most recent *OSA Report on WA Cares Fund Solvency* identifies OSA's recommendations to support program solvency. Additionally, the LTSS Trust Commission's *WA Cares Fund Risk Management Framework* provides potential response strategies to improve projected solvency. Strategies range from reducing future benefit expenditures to increasing program revenue, including amending the state constitution to permit the Washington State Investment Board (WSIB) to invest the fund's assets in full range of investments. For more information, please see the **Appendix**.

9. What are the key assumptions that impact projected solvency?

Some key assumptions that have a significant impact on projected solvency are:

- Investment returns,
- Benefit payment costs (includes likelihood of needing long-term care and using the WA Cares benefit),
- Wage levels and future wage growth,
- Regional inflation (which is connected to the growth of WA Cares maximum benefit), and
- "Vesting" (includes earning service credits and the likelihood of residing in Washington State when long-term care is needed). By vesting, here and throughout the document, we mean qualifying for

future coverage from the program. That qualification could be temporary or permanent depending on an individual's work/premium history and future state residency.

Many of the following questions address these key assumptions, including Milliman's current assumptions and how the WA Cares projections change under different assumptions.

10. What is Milliman assuming for future investment returns?

Milliman's baseline analysis assumes the WA Cares Fund will be invested in Treasury bonds. They assume the investment returns on the program fund will be 0.5 percent in 2022, increasing to 2.3 percent per year by 2047. The assumed investment return remains at 2.3 percent per year for the remainder of the projection period.

WSIB is responsible for determining the WA Cares Fund investment plan. Under current law, they may be able to invest in a higher returning asset class than US Treasury bonds. For more information on the potential investment plan and how the funded ratio changes under different investment assumptions, please see the **Appendix**.

11. What did Milliman assume for the benefit payment costs?

Benefit payment cost refers to the amount of WA Cares benefits used by the covered population. This cost includes the likelihood someone will start needing care (incidence rate), how long someone will need care (length of stay), the level of care needed (utilization rate), and the likelihood someone survives to a given age (mortality rate). Additionally, payments from the program cannot exceed the maximum lifetime benefit amount adjusted for inflation annually (inflation assumption) consistent with current law.

Milliman's benefit payment cost assumptions are based on a proprietary model that relies on private market actual experience which is then calibrated to a general population.

Given no public program like this exists, there is a fair amount of judgment involved in estimating rates at which a statewide population will use the WA Cares benefit. For more information on how changes in benefit payment costs impact projected solvency, please see the **Appendix**.

12. What did Milliman assume for future wage growth?

Milliman's long-term wage growth assumption is 3.55 percent per year. The short-term wage growth assumption is lower, to reflect the expectation the Washington average wage will decline to the national average wage over the next 20 years. The Washington average wage is currently 14 percent higher than the national average wage. Taking the short- and long-term wage growth into account, the average wage growth assumption is approximately 3.4 percent per year over 75 years. For more information, please see the **Appendix**.

13. What did Milliman assume for future WA Cares maximum benefit growth?

The WA Cares Fund maximum lifetime benefit is assumed to grow each year by a regional Consumer Price Index (CPI). Milliman assumes annual growth of 2.50 percent in their baseline analysis. For more information, please see the **Appendix**.

14. What is Milliman's vesting assumption?

To qualify for a WA Cares benefit on either a temporary or permanent basis, an individual must first pay into the program a certain number of years[3] during which they work at least 500 hours per year (which is the minimum threshold to earn a year of vesting service). The individual must also reside in Washington state when they meet the long-term care benefit eligibility threshold.

Milliman estimates the likelihood individuals earn a year of vesting service by starting with historical employment data. Milliman adjusted the data to reflect expected differences between historical and projected future working patterns. The adjustments included setting female vesting percentage assumptions to male vesting percentage assumptions and increasing vesting rates due to the potential to work additional years to achieve full benefits under WA Cares.

Milliman also uses historical patterns to estimate the portion of Washingtonians that will leave the state and no longer be eligible for WA Cares benefits. Moving into/out of the state is referred to as the migration assumption and it plays a role in the likelihood an individual not only qualifies for coverage under the program benefit but remains in the state until a long-term care need arises. For more information, please see the **Appendix**.

15. What key program parameters still need to be clarified?

As noted in our most recent *OSA Report on WA Cares Fund Solvency*, two key program parameters that require clarification in order to ensure actuarial modeling is in line with expected program administration are the benefit eligibility trigger, i.e., what type of assisted daily living activities are needed to receive a program benefit, and the amount of time between when an the individual has a qualifying long-term care need and when benefits are payable. For more information, please see the **Appendix**.

[3] *RCW 50B.04.050*.

16. How will exemptions for private long-term care insurance policies impact WA Cares projections?

Milliman's Base Plan in their *2020 LTSS Trust Actuarial Study* assumed approximately 105,000 workers (3 percent of the working population) receive a private market exemption. They modeled additional exemption scenarios as part of the baseline modeling, including a scenario where up to 1.5 million workers (45 percent of the working population) receive a private market exemption. Under the Base Plan scenario, the program is projected to have sufficient funding to pay full benefits and expenses until 2075. Under the scenario where 45 percent of the working population is exempted, the program is projected to have sufficient funding to pay full benefits and expenses until 2068. For more information on exemptions, please see the **Appendix**.

APPENDIX

The **Appendix** contains more detailed answers to some of the questions contained earlier. The numbering below matches the numbering of the original question in the prior section.

5. How does OSA measure solvency?

Table 1 in OSA's *Actuarial Status of the LTSS Trust Program, 2022-2096* calculates a ratio of the present value of all future premium revenue divided by the present value of future program expenditures (WA Cares "Funded Ratio"). A 100 percent funded ratio means that the program is expected to collect sufficient premiums such that, when added to assumed investment returns, would be enough to pay full benefits and expenses over the 75-year projection period. Put another way, if the program were currently projected to remain solvent, the current law premium rate of 0.58 percent would be expected to be sufficient to pay full benefits and expenses over the 75-year projection period.

A funded ratio less than 100 percent means, assuming all assumptions are realized, the program is not projected to pay full benefits and expenses through the entire 75-year period. In other words, a funded ratio less than 100 percent means the current law premium rate of 0.58 percent is not expected to be sufficient to pay full benefits and expenses over the projection period.

6. Based on the most recent WA Cares projections, is the program projected to cover all future expected benefits and expenses over the next 75 years?

Please see Figure 1 in OSA's *Actuarial Status of the LTSS Trust Program, 2022-2096* for a graph summarizing Milliman's most recent Base Plan projection. If all assumptions are realized, and no additional changes are made, Milliman projects the program to have sufficient funds to cover full benefits and expenses through the year 2075. At that time, program expenditures will be reduced to incoming annual premium levels. Based on Milliman's calculations, a level premium rate of 0.66 percent is expected to be sufficient to pay for full program benefits and expenses over the 75-year period.

Table 1 in the document calculates a ratio of the present value of all future premium revenue divided by the present value of future program expenditures (WA Cares Funded Ratio)[4]. The WA Cares Funded Ratio is 91 percent based on our latest measurement. This assumes an annual investment return of 2.5 percent per year over the 75-year period. A higher investment return would improve the WA Cares Funded Ratio. For example, an annual investment return of approximately 3.9 percent would result in a 100 percent WA Cares Funded Ratio based on our latest measurement.

[4] *In this calculation, there is no assumed reduction to program expenditures after year 2075.*

7. What happens if the program is not projected to be solvent?

Actuarial projections over 75 years are sensitive to small changes in program policies, program experience and the assumptions which estimate future experience. The LTSS Trust Commission adopted the *WA Cares Fund Risk Management Framework* in November 2021 which details the program's risk management strategy. It identifies a strategic path, divided into three phases, to increase the current 91 percent funded ratio to something above 100 percent. Phase 1 focuses on gathering early program experience to refine and improve the actuarial projections. That phase is expected to last until at least 2026. The timing of moving into the later phases will depend on the funded ratio calculated from updated analysis and what, if any, response strategies are relied upon to improve program solvency. Phase 2 and Phase 3 focus on using additional response strategies, if necessary, in order to improve the program's funded ratio. One of the goals of Phase 3 is to initially achieve a funded ratio above 100 percent so that it will include a margin for future adverse experience.

8. What can be done to improve projected solvency?

Most response strategies identified in the LTSS Trust Commission's *WA Cares Fund Risk Management Framework* are recommended to be implemented in Phase 2 or Phase 3, if needed, not at the present time. One response strategy that could be implemented in any phase is running a constitutional amendment which, if passed by a vote of the people, would allow for the fund to invest in higher earning asset classes, such as equities. A higher assumed investment return would improve the WA Cares funded ratio. See Figure 1 in Milliman's *2020 LTSS Trust Actuarial Study*, which compares projected solvency under current law investments and an alternative investment of 70 percent fixed income and 30 percent equities. Under the alternative scenario, the program is projected to have sufficient funds to pay full benefits and expenses over the entire projection period.

10. What is Milliman assuming for future investment returns?

WSIB is responsible for determining the WA Cares Fund investment plan. They are determining if under current law the fund can be invested in a diversified fixed income portfolio that includes corporate bonds. WSIB likely will not make a final determination until early 2022. If the program can be invested in corporate bonds, we expect projected returns will exceed what Milliman modeled. If they cannot, projected returns will likely be closer to what Milliman is currently modeling.

Based on WSIB's latest Capital Market Assumptions (CMAs), future return expectations for the WA Cares Fund will depend on, among other items, the final determination of allowable investments, the investment allocation among those allowable investments, and the duration of those investments. On the low end, a portfolio with a 100 percent allocation to "short-term cash and cash equivalents" produces a median 15-year expected return of 1.7 percent based on current CMAs.

On the high end, a portfolio with a 100 percent allocation to "diversified fixed income," if allowable, produces a median 15-year expected return of 3.6 percent based on current CMAs.

Milliman's baseline analysis assumes the WA Cares Fund will be invested in Treasury bonds, which assumes the investment returns on the program fund will be 0.5 percent in 2022, increasing to 2.3 percent per year by 2047. The assumed investment return remains at 2.3 percent per year for the remainder of the projection period.

If actual investment returns are more/less than assumed, the WA Cares Funded Ratio would increase/decrease. Please see the table below to see how the funded ratio changes if the assumed annual investment returns were decreased or increased by 0.5 percentage points per year. The actual investment return and funded ratio could be more or less than what is shown in the table.

Funded Ratio Sensitivity to Assumed Returns			
	-0.5%	Baseline	+0.5%
Current Law Investments	87%	91%	94%

Alternatively, if a constitutional amendment were to pass, similar to the one proposed under Senate Joint Resolution 8212, WSIB would have greater flexibility in their asset allocation, and would have the option to invest in equities as part of the investment plan.

The following table is an illustrative example of how the funded ratio could change under different investment policies and investment return assumptions. Milliman's Alternate Investment baseline scenario assumes the fund is invested 30 percent in equities and 70 percent in fixed income. Under this scenario, the fund is assumed to earn 3.4 percent in 2022 increasing to 4.8 percent per year by 2047. The assumed investment return remains at 4.8 percent per year for the remainder of the projection period. The actual investment policy that would include equities could differ from this scenario as well as the actual return and funded ratio could be more or less than what is shown in the table.

Funded Ratio Sensitivity to Assumed Returns			
	-0.5%	Baseline	+0.5%
Current Law Investments	87%	91%	94%
Alternate Investments (Includes Equities)	100%	106%	111%

11. What did Milliman assume for the benefit payment costs?

One of the primary assumptions used to model benefit payment costs is the likelihood of a resident needing care as defined under WA Cares (i.e., the incidence rate). Higher incidence rates mean a higher likelihood of using a program benefit at a given age.

The table below shows how the funded ratio changes if the assumed incidence rates are 20 percent lower (Low) or 20 percent higher (High) than assumed. The actual incidence rates and funded ratio could be more or less than what is shown in the table.

Funded Ratio Sensitivity to Assumed Incidence Rates			
	Low	**Baseline**	**High**
Likelihood of Needing LTSS (Incidence Rates)	99%	91%	85%

12. What did Milliman assume for future wage growth?

Eligible wages are the wages earned that will be subject to the WA Cares Fund premium assessment. Milliman assumed eligible wages are the same amount of earnings subject to the Medicare tax. This is defined as gross wages minus section 125 cafeteria plan contributions and other exempt compensation as outlined in Table 2-1 of 2021 Publication 15-B (irs.gov).

The average eligible wages per worker are based on the Social Security's 2020 OASDI Trustees report and adjusted to Washington specific levels by comparing the ratio of the average wage in Washington to the national average (Washington average wage is currently approximately 14 percent higher than the national average wage).

Milliman also assumed average eligible wages per worker will grow in line with the Social Security's 2020 OASDI Trustees report and projected differences between Washington State and national data. The ratio of the Washington average wage compared with the national average wage is assumed to decline over 20 years until the Washington average wage equals the national average wage. When looking over the 75-year period, these assumptions combined represent approximately 3.4 percent wage growth per year, on average, applied to the starting 2022 assumed Washington average wage.

The table below shows how the funded ratio changes if the assumed annual wage inflation is 0.50 percentage points lower or 0.50 percentage points higher than assumed. The actual wage inflation and funded ratio could be more or less than what is shown in the table.

Funded Ratio Sensitivity to Assumed Wage Inflation			
	-0.50%	**Baseline**	**+0.50%**
Inflation (Wages Only)	75%	91%	111%

If Milliman were to assume the Washington State average wage remains 14 percent higher than the national average wage throughout the 75-year projection period, this would result in an average annual growth rate of 3.6 percent per year, or an approximate funded ratio of 99 percent.

13. What did Milliman assume for future WA Cares maximum benefit growth?

If actual regional inflation is higher/lower than assumed, the maximum benefit would likely grow at a higher/lower rate of inflation, which all else being equal would lead to higher/lower expected costs. There is, however, a likely correlation between CPI growth and wage growth since CPI is generally considered to be a building block component of wage growth. For example, if actual CPI is higher than assumed, it is likely that wage inflation will also be higher than assumed. In that case, the assumption changes tend to offset each other and we see little funded status sensitivity.

Funded Ratio Sensitivity to Assumed Inflation			
	-0.25%	Baseline	+0.25%
Inflation (Benefits Only)	101%	91%	81%
Inflation (Benefits and Wages)	91%	91%	90%

14. What is Milliman's vesting assumption?

Milliman's report does not include an explicit table listing their year-by-year and age specific vesting assumption.

The table below shows how the funded ratio changes if the assumed vesting rates are roughly 10 percent lower (Low) or roughly 10 percent higher (High) than assumed. The actual vesting rates and funded ratio could be more or less than what is shown in the table.

Funded Ratio Sensitivity to Assumed Vesting Rates			
	Low	Baseline	High
Vesting	100%	91%	86%

In terms of migration, Milliman's starting in and out migration percentage assumptions by age and gender are based on data from the US Census Bureau's American Community Survey. They then calibrated the resulting net migration to follow the December 2019 Forecast of the State Population prepared by the State of Washington's Office of Financial Management. In rough terms, Milliman's approach resulted in about 200,000 people annually leaving the state and about 250,000 people annually entering the state (for a net migration of plus 50,000 per year).

15. What key program parameters still need to be clarified?

Washington State's Department of Social and Health Services (DSHS) asked Milliman to assume benefit eligibility criteria consistent with the current definitions used under the state of Washington's Medicaid program. DSHS continues their work to clarify the benefit eligibility trigger within the WA Cares Fund and are working with Milliman to ensure the modeling is in line with expected administration. Recent discussions suggest Milliman's approach of using the state's Medicaid definitions will align with WA Cares Fund eligibility.

Regarding the timeframe between the onset of long-term care needs and when benefits are paid, this is modeled through a one-time Elimination Period (EP). DSHS asked Milliman to model a 45-day EP based on the assumption that the DSHS will need 45 days to determine eligibility. The EP Milliman modeled serves as a one-time "deductible" period of 45 consecutive days during which the individual has a qualifying level of disability meeting the benefit eligibility trigger and must pay long-term care expenses out-of-pocket. Milliman assumed benefit payments will commence following satisfaction of the EP. A shorter period to determine eligibility (i.e., less than 45 days) can be modeled through the impact on benefit payment costs for shorter EPs. The following table shows the impact if there was no EP.

Funded Ratio Sensitivity		
	0-day EP	Baseline (45-day EP)
Elimination Period	86%	91%

16. How will exemptions for private long-term care insurance policies impact WA Cares projections?

This question was addressed at the December 2021 LTSS Trust Commission meeting. For more information, please see OSA's presentation which starts on slide 12 in the December 10, 2021, LTSS Trust Commission presentation.

There is a one-time application period for workers to request an exemption from the WA Cares Fund if they procure qualifying long-term care insurance elsewhere. Applications must be received by December 31, 2022, however, the qualifying insurance policy must have been purchased prior to November 1, 2021.

Shortly after December 31, 2022, and after all applications have been processed by the ESD, OSA will know the total number of exemptions, or "opt-outs" approved. OSA will also know the age (self-reported) and wage characteristics of the opt-out population.

Milliman's baseline analysis assumes approximately 3.5 million workers paying into the program in 2022. Their projections then considered private insurance opt-out scenarios ranging from roughly 3 percent of the workers to 45 percent of the workers opting out.

Under the 3 percent scenario, Milliman assumed approximately 105,000 higher than average paid workers (representing approximately 10 percent of total assumed covered wages in 2022) opt-out. As shown in Figure 1 of Milliman's *2020 LTSS Trust Actuarial Study*, the program is projected to have sufficient funds to pay full expected benefits and program expenses through 2075.

Under the 45 percent scenario, Milliman assumed approximately 1.5 million workers (representing approximately 75 percent of total assumed covered wages in 2022) opt-out. As shown in Figure 3 of Milliman's *2020 LTSS Trust Actuarial Study*, the program is projected to have sufficient funds to pay full expected benefits and program expenses through 2068.

Both scenarios assume the fund collects a 0.58 percent premium rate and invests 100 percent of funds in treasuries consistent with current law.

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