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[Sent via email: luke.masselink@leg.wa.gov]

Re: Additional Modeling for Benefit Eligibility Workgroup

Dear Luke:

Per your request, we performed preliminary analysis of alternative program features for the WA Cares Fund being considered by the Long-Term Services and Supports (LTSS) Trust Commission Benefit Eligibility Workgroup.

The starting Base Plan for this letter relies upon the base plan included in our 2020 LTSS Trust Actuarial Study[1] dated December 12, 2020 (2020 Actuarial Study). All plan features, methodology, and assumptions are consistent with the modeling of the base plan in our 2020 Actuarial Study unless indicated otherwise. The results in this letter should be considered in their entirety in combination with our 2020 Actuarial Study.

Various alternatives in this letter allow choice for individuals to opt-in or opt-out of the WA Cares Fund at the start of the program (i.e., by the end of 2022). **Program parameters that introduce choice and that are not mandatory create potential for adverse selection and uncertainty in pricing and projection estimates.** When an alternative includes a choice to participate in the WA Cares Fund, we illustrate results under varying impacts to premiums and claims, including scenarios where premiums and claims are impacted differently due to potential adverse selection.

It is important to note that the plan alternatives described in this letter may not affect the WA Cares Fund cash flows equally in each calendar year. In particular, proposals that target certain age groups or that include one-time optional choices will have varying impacts across the 75-year horizon modeled. Throughout this letter, the impact of the plan alternatives requested by the Benefit Eligibility Workgroup is illustrated by comparing the estimated premium assessment over the 75-year horizon of each plan alternative to the 2020 Actuarial Study Base Plan. It will be critical for the Benefit Eligibility Workgroup to also consider the cash flow impact to the WA Cares Fund by year, among other factors, if a different funding approach is used.

The results in this letter rely on the assumed opt-out structure for private long-term care (LTC) insurance as included in the 2020 Actuarial Study. Subsequent to that study, the WA Cares Fund opt-out offering was clarified to include the purchase of private LTC insurance through November 1, 2021. **The changes to the premium assessments in this letter could be lower or higher to the extent the number and characteristics of individuals opting out through the purchase of private of LTC insurance differs from the assumptions included in the 2020 Actuarial Study.**

MODELING REQUEST #1: NEAR-RETIREES

We analyzed two proposals from the Benefit Eligibility Workgroup for addressing “near-retirees” (i.e., those within 10 years of retirement who may not have the opportunity to fully vest into the program). The first proposal would allow people to continue contributing after retirement by paying an annual premium equal to their average annual premium during their previous vesting years (adjusted for wage inflation) until they hit the ten year mark, at which point they become permanently vested and owe no further premiums. Figure 1 below shows the payroll premium assessments required to fund the program over a 75-year window for the program alternatives.

[1] Giese, C. et al. (December 14, 2020). 2020 Long-Term Services and Supports Trust Actuarial Study. Milliman Report. Retrieved August 25, 2021, from https://leg.wa.gov/osa/additionalservices/Documents/Milliman2020WALTSSTrustActuarial%20Study.pdf

Figure 1
Washington Office of the State Actuary
Cost Illustrations to Cover Near-Retirees Through Additional Premiums
Level Premium Assessment Required
Assumed Retirement Age 65

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Add 50% premium / add 50% claims for near-retirees	0.69%	0.03%
Scenario 2: Add 100% premium / add 100% claims for near-retirees	0.72%	0.05%
Scenario 3: Add 0% premium / add 100% claims for near-retirees	0.72%	0.06%

Under the Base Plan, there is no premium paid by individuals beyond the premium assessment on wages. Additionally, there is no benefit included for anyone who is not able to vest. The alternatives in Figure 1 contemplate adding premiums, so that individuals who would not be able to vest under the Base Plan, due to their impending retirement age, could vest and become eligible for benefits. When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model different scenarios related to the additional premiums and claims that could be added to the program by this near-retiree cohort.

The second proposal we examined uses a structure where anyone born in 1966 or earlier would be allowed to opt out (without needing to purchase a private long-term care insurance plan). See Figure 2 below.

Figure 2
Washington Office of the State Actuary
Options to Exempt Near-Retirees
Voluntary Opt-out for Individuals Born in 1966 or Earlier
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Remove 100% premium / remove 100% claims for near-retirees	0.63%	-0.03%
Scenario 2: Remove 100% premium / remove 0% claims for near-retirees	0.68%	0.01%
Scenario 3: Remove 50% premium / remove 0% claims for near-retirees	0.67%	0.01%

Under the Base Plan, premium assessments are charged on all wages from wage earners (with the exception of several cohorts exempt through opt-in or opt-out) regardless of the wage earners age or proximity to retirement. This would mean that some near-retirement individuals will contribute to the program via the premium assessment, but never be eligible for benefits, as they will retire before attaining vested status. The alternatives in Figure 2 contemplate allowing near-retirees (defined here as anyone born in 1966 or earlier) the option to opt out of the WA Cares Fund. When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model different scenarios related to the premiums and claims for this near-retiree cohort that might be removed from the program under such an opt-out.

MODELING REQUEST #2: BORDER STATE RESIDENTS COMMUTING TO WORK IN WASHINGTON

We analyzed two proposals from the Benefit Eligibility Workgroup for addressing border-state residents who do not reside in Washington, but have earned wages in Washington. The first proposal would remove the benefit-eligibility exclusion for vested individuals residing in border states (i.e., Idaho and Oregon). See Figure 3 below.

Figure 3
Washington Office of the State Actuary
Options to Cover Border-State Residents Earning Wages in Washington
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Remove benefit-eligibility exclusion for vested individuals residing in Idaho or Oregon	0.73%	0.07%

The second proposal examines structures where border-state residents could be exempted from paying into the program. We modeled both a voluntary opt-out and a mandatory, automatic exemption for border-state residents. We assumed that 150,000 workers commute into Washington from bordering states based on data from the Washington Employment Security Department. We also assumed their average wages were the same as those individuals modeled under the Base Plan. Figure 4 summarizes the modeling results.

Figure 4
Washington Office of the State Actuary
Options to Exempt Border-State Residents Earning Wages in Washington
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
Scenario 1: Automatic exemption – remove 100% premium / add 0% claims of border-state residents	0.69%	0.03%
Scenario 2: Voluntary – remove 0% premium / add 100% claims of border-state residents	0.69%	0.03%
Scenario 3: Voluntary – remove 100% premium / add 100% claims of border-state residents	0.72%	0.06%
Scenario 4: Voluntary – remove 50% premium / add 50% claims of border-state residents	0.69%	0.03%

Under the Base Plan, premium assessments are charged on all wages including wage earners living in other states. This would mean that individuals living out of state will contribute to the program, but may not be eligible for benefits unless they move into Washington when they need services. The automatic exemption scenario (Scenario 1) removes the premium contributed from these individuals, but there no claims to remove, since those individuals do not live in Washington.

When personal choice or voluntary participation is introduced into a program, setting rates presents a greater challenge given the unpredictability related to participation rates and adverse selection. Given this, we model scenarios 2 through 4 where we remove premiums and add claims from individuals in border states. Should individuals living in border states that pay premium assessments move into Washington at the time they need care (and therefore, would then be eligible for benefits from the WA Cares Fund), the additional claims in these scenarios represent potential additional benefits payable by the WA Cares Fund. For example, Scenario 4 assumes 50% of individuals decide to opt out, so we remove 50% of the modeled premiums from the Base Plan. However, since 50% chose to opt in, we assume they would move into Washington at the time services are needed. We then need to correspondingly add 50% of claims to the Base Plan from individuals living in border states that pay premium assessments and vest.

MODELING REQUEST #3: PEOPLE WHO LEAVE THE STATE

We analyzed proposals from the Benefit Eligibility Workgroup in which individuals who leave the state could use benefits outside the state (either 100% of full benefits or 50% of full benefits). See Figure 5 below. These tests are similar to those modeled under the divesting / portability alternatives shown in the 2020 Actuarial Study.

Figure 5
Washington Office of the State Actuary
Options to Cover People Who Leave the State
Level Premium Assessment Required

Test	Premium Assessment	% Change from Base Plan
Base Plan	0.66%	N/A
100% of Full Benefits Portable	1.03%	0.36%
50% of Full Benefits Portable	0.85%	0.18%

MODELING REQUEST #4: NON-IMMIGRANT VISAS

We analyzed a proposal from the Benefit Eligibility Workgroup where individuals with a non-immigrant visa are automatically exempt from the WA Cares Fund. Under the Base Plan, premium assessments are collected on wages from all non-exempt wage earners, including individuals, such as non-immigrant visa holders. Benefits are only assumed to be paid to individuals who are permanent residents of the state of Washington, which would not include non-immigrant visa holders.

We assumed there were nearly 23,000 individuals holding H2A visas[2] and 30,000 individuals holding H1B visas[3] in Washington in 2020. Additional assumptions related to these individuals are summarized below. Because H2A and H1B visa holders make up a small proportion of total wage earners in Washington, this alternative has a minor impact to the premium assessment compared to the Base Plan, requiring an increase to the premium assessment percentage of roughly 0.01% (i.e., to 0.678% from 0.664%).

Other assumptions we used to model the estimated impact to the premium assessment for individuals with a non-immigrant visa include:

- Individuals with a H2A visa have average annual wages of $32,926. This is based on an assumed hourly rate of $15.83 and working 40 hours per week.
- Individuals with a H1B visa have average annual wages of $122,000.
- Wages are assumed to increase annually at the same rate underlying the Base Plan modeling.
- The proportion of individuals with a non-immigrant visa compared to the total population of Washington workers remains constant across the 75-year horizon modeled.

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:

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[2] *Yearbook of Immigration Statistics 2019. (April 30, 2021).* Department of Homeland Security. Retrieved August 31, 2021 from https://www.dhs.gov/immigration-statistics/yearbook/2019.
[3] "Top H1B Visa Sponsor by Work State : 2020 H1B Visa Reports." Myvisajobs.com. Retrieved August 23, 2021, from, www.myvisajobs.com/Reports/2020-H1B-Visa-Category.aspx?T=WS#LCA.

- This letter 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 additional alternatives to the 2020 Baseline presented in the 2020 LTSS Trust Actuarial Study provided on December 14, 2020, which should be read in its entirety with this letter. In completing this analysis, we relied on information provided by OSA, DSHS, 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 required revenue for alternative program features of the Washington 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.

The terms of the Personal Services Contract with Washington State OSA effective February 26, 2020, apply to this information.

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

Sincerely,

Christopher J. Giese

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Principal and Consulting Actuary

CJG/mmd