



Office of the State Actuary

“Supporting financial security for generations.”

OSA REPORT ON LTSS TRUST SOLVENCY

October 20, 2020

Executive Summary

Per [Chapter 50B.04.030 RCW](#), the Office of the State Actuary (OSA) is responsible for providing recommendations to the Long-Term Services and Supports (LTSS) Trust Commission (the Commission) and the Legislature on actions necessary to achieve and maintain trust solvency.

OSA is currently working with the consultants at Milliman who performed earlier feasibility studies informing the legislation that ultimately created the LTSS Trust Program. OSA contracted with Milliman to perform updated actuarial analysis based on enacted law.

Due in part to the emerging details and benefit definitions of the program, Milliman provided a range of results informed by scenarios. Their analysis therefore sometimes compares the initial statutory premium rate of 0.58 percent with the minimum premium rate necessary to cover all expected future costs over the next 75 years. In some scenarios 0.58 percent is projected to be sufficient to cover future expected costs, however in other scenarios, a premium rate of 0.58 percent is projected to be insufficient to cover future expected costs.

Please note, there are benefit provisions that still need clarification, a public vote in November that impacts how the LTSS Trust can be invested, and a yet to be determined investment policy. Each of these will have a significant impact on modeling plan costs and revenue. Updated actuarial analysis is needed as these components are more clearly defined to re-assess plan solvency and determine an updated baseline analysis for future reporting and decision making.

Please refer to Milliman’s attached report for their complete actuarial analysis including a summary of the LTSS Trust Program benefit provisions being modeled.

In addition to performing updated actuarial analysis after some key decisions are made, to improve plan solvency OSA also recommends working towards documenting a risk management framework and a funding policy. Having these will guide future decisions, inform actuarial modeling, and mitigate risks.

OSA must provide biennial actuarial reports starting January 1, 2024, and these reports will include key metrics to track program progress as well as future recommendations to maintain program solvency.



Who Makes LTSS Trust Program Decisions Informed by Actuarial Analysis?

In addition to providing recommendations on trust solvency, OSA is responsible for providing actuarial analysis to support LTSS Trust Program decision making. This includes, but is not limited to, benefit policy, investment policy, and premium rate levels.

The groups with statutory responsibilities that will rely on actuarial analysis are summarized in the following table.

Group	RCW	How They Will Use Actuarial Analysis
The Commission	<u>50B.04.020</u> <u>50B.04.030</u>	The Commission receives actuarial reports, including OSA's recommendations on trust solvency. The Commission may request additional actuarial analysis to inform their decisions or recommendations.
LTSS Trust Council (the Council)	<u>50B.04.040</u>	The Council determines adjustments to the benefit unit to assure benefit adequacy and solvency of the program. The Council must review OSA's analysis and recommendations.
Pension Funding Council (PFC)	<u>50B.04.080</u>	The PFC sets the premium rate. The initial premium rate is 0.58 percent of an individual's wages and current law prohibits the rate from increasing. OSA also makes recommendations to the PFC regarding program solvency.
Washington State Investment Board (WSIB)	<u>50B.04.110</u>	The WSIB is responsible for determining how to invest the contributions collected for the LTSS Trust Program and will rely on the actuarial analysis to assess liquidity needs as part of an asset allocation study to inform the overall investment policy.

What Actuarial Analysis Has Been Performed and What Does It Show?

OSA does not have in-house long-term care expertise so we currently rely on the consultants at Milliman to perform actuarial studies necessary to inform decision making. Milliman prepared the feasibility study analysis that informed the legislation creating the LTSS Trust Program.

We contracted with Milliman to update the prior feasibility analysis. Milliman's most recent study is attached to this report and it reflects the enacted law as well as additional "what-if" scenarios. The additional scenarios incorporate how sensitive the minimum premium rate is to key assumptions and cost considerations for expanding or modifying benefit provisions. There are portions of the enacted law that require further clarification on certain eligibility and benefit provisions. Milliman's report is expected to inform those decisions.

Based on our read of Milliman's report, we think it is important to highlight the following key take-aways:

- ❖ Key program parameters that still need to be defined include, but not limited to, the investment policy, private insurance opt-out, self-employed opt-in, benefit eligibility trigger, and the elimination period.



- ❖ Based on the current terms of the program and assumptions made in their work, Milliman estimates a required premium rate between 0.53 percent and 0.69 percent to cover all future program benefits and expenses over the next 75 years.
- ❖ In reviewing key assumptions and how changing the assumptions impacted the premium rate calculation, the required premium rate ranged from 0.40 percent to 1.14 percent. See Milliman's report for additional context.
- ❖ When reviewing anticipated program costs and revenue, it's important to consider an appropriate margin for experience emerging differently than expected.

The final report will also document the outcome of [Engrossed Senate Joint Resolution 8212](#) which is up for a vote in the November 3 election. The outcome of the vote will impact the types of allowable investments for the LTSS Trust and Milliman's premium rate calculation. Milliman's analysis shows results reflecting both outcomes of the vote.

What Are Relevant Considerations When Looking to Achieve and Maintain Trust Solvency?

Viewing it simply, a solvent plan has the money to pay all benefits and expenses when due. This outcome can be achieved in multiple ways. When considering if a program is projected to be solvent, some initial questions to ask include:

- ❖ Is the program expected to collect and earn enough money to cover all future benefits and expenses?
- ❖ What options are there to manage future costs and revenue if expected costs are greater than expected revenue?

With regards to the first question, per RCW 50B.04.080 initial premiums will be based on a 0.58 percent premium rate. Therefore, the initial enacted program must have a calculated premium rate equal to or less than 0.58 percent for the plan to be projected to be solvent. The attached actuarial analysis calculates premium rates under various scenarios that represent the expected minimum rate necessary to pay all future benefits and expenses during the next 75 years. These calculations rely on many assumptions to estimate future costs and revenue and the calculated premium rate can vary significantly when certain assumptions are changed. These assumptions will be monitored and may change in future analyses.

When expected costs are greater than expected revenue, changes would be required in order to maintain projected solvency. These changes, or management strategies, fall into two primary categories, either:

- ❖ Reduce future benefit levels or other program parameters that affect benefit spending, or
- ❖ Increase the premium rate.



Both strategies have their challenges and may be met with resistance. As Milliman points out in their report, “If levers such as adjusting program benefits or the premium rate aren’t available, a larger amount of margin is likely appropriate to handle adverse events.” Margin, or cushion, represents the amount of additional funds that are expected to be collected to protect against actual experience being more expensive than assumed. For example, a margin of 0.05 percent would mean a program with assumed costs reflecting a premium rate of 0.53 percent, or 0.05 percent below the statutory rate of 0.58 percent.

OSA may expand this section to incorporate Commission feedback on these topics collected during the October 20 LTSS Trust Commission meeting.

Recommendations

OSA recommends the following actions to support the projected solvency of the LTSS Trust Program:

- ❖ **Clarify key program parameters.** The provisions that Milliman estimates to have the most impact on solvency include the private insurance opt-out, self-employed opt-in, benefit eligibility trigger, and the elimination period.
 - This will improve the actuarial modeling to better define expected costs and revenue.
- ❖ **Clarify the investment policy through work with the WSIB.**
 - This will improve the actuarial modeling to better estimate anticipated investment income.
- ❖ **Perform an updated baseline analysis reflecting input from the prior bullets.**
 - Incorporating updated costs and revenue will likely change the premium rate required to cover expected future costs so it is important to re-assess the program solvency once these key decisions are made.
- ❖ **Establish a risk management framework consistent with the program’s financial goals.**
 - For example, a goal of ensuring the program has sufficient assets to pay benefits when due and, to the extent feasible, premiums paid by future beneficiaries remain an equitable share in relation to the benefits they receive.
 - Components of a risk management framework may include:
 - ◇ Identification of risks.
 - ◇ Measurement and assessment.
 - ◇ Mitigation of risks.



- ◇ Reporting and monitoring.
- ◇ Coordination of risk management roles/responsibilities.
- ❖ **Establish a funding policy consistent with the above.**
 - For example, if the approach is to retain a sufficient “margin” below the 0.58 percent maximum premium rate in current law, OSA would evaluate future program costs relative to that target.
 - On the other hand, if the approach is to retain the 0.58 percent premium rate (a “fixed rate” plan) and adjust future benefit levels or other program parameters that affect benefit spending, OSA would evaluate future program costs relative to that target.
 - In practice, the working funding policy will likely fall between these two approaches and where that point lands could vary over time depending on future circumstances. However, there may be preferences for one approach over the other.

What Will Future Actuarial Reports Look Like?

Per RCW 50B.04.020, OSA is required to provide actuarial reports biennially starting January 1, 2024. Additional actuarial reports or analysis may be performed at the request of the Council.

The final report will include a projected timeline highlighting future actuarial reporting and key stakeholder actions.

Key metrics to monitor solvency and program progress that may be included in future actuarial reports include:

- ❖ Financial status of program.
- ❖ Updated premium rate calculations.
- ❖ Updated projections of expected program revenue, benefit, and expenses by year.
- ❖ Track actual experience to assumed experience for:
 - Revenue.
 - Benefits.
 - Investment income.
 - Administrative expenses.
- ❖ Experience studies to study and potentially revise assumptions.



OSA prepared the above report and recommendations, however, please refer to Milliman's attached report for all actuarial analysis. We encourage you to submit any questions you might have concerning this report to our e-mail address at state.actuary@leg.wa.gov.

Sincerely,

Matt Smith, State Actuary

Luke Masselink, Senior Actuary

Attachment: Milliman's 2020 Long-Term Services and Supports Trust Actuarial Study.

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