



LTSS Trust Commission Investment Strategy Subcommittee Meeting



MEETING GUIDELINES

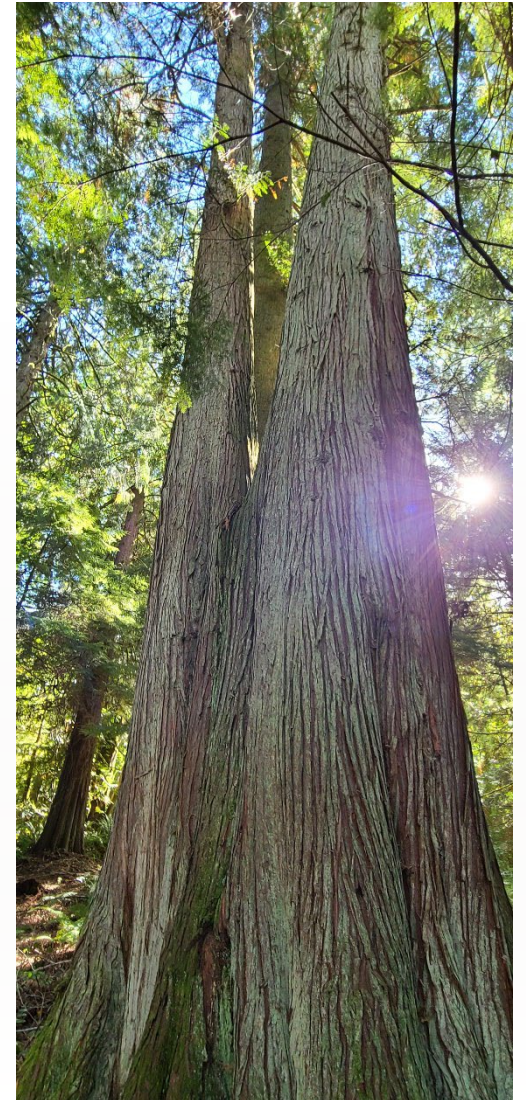
Commission Members

- Please turn on video
- Stay muted unless talking
- Encourage active participation
- Raise hand to speak if necessary

Observers

- Opportunity to provide public comment later in the meeting

WELCOME & CALL TO ORDER



MEETING GOALS

- Receive update on WA Cares Fund investment plan and provide feedback
- OSA presentation on Milliman 2022 Report
- Elect a new ISS Chair for 2023
- Provide input on agenda for June meeting

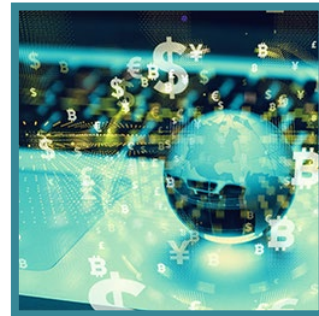
CONSENT AGENDA

- 04/05/2022 Investment Strategy Subcommittee meeting minutes
- 2023 Meeting Schedule Dates
 - June 2 from 1 to 2:30 p.m.
 - October 25 from 1 to 2:30 p.m.

WA CARES – INVESTMENT PLAN UPDATE

NOVEMBER 4, 2022

Christopher Hanak
Chief Investment Officer



AGENDA



- **Timeline**
- **Investment Policy and Strategy**
- **WSIB Fixed Income Historical Performance**
- **Macro Environment: Fixed Income Investing in a Raising Interest Environment**
- **Portfolio Risk and Return Metrics**
- **Portfolio Simulated Expected Return**
- **Current Status**
- **Contact Information**

TIMELINE

November 2020	WSIB briefs Trust Commission Investment Strategy Subcommittee (ISS) on WSIB's approach to asset management
June 2021	WSIB updates Trust Commission ISS on revised investment plan
September 2021	WSIB provides Trust Commission ISS with an investment plan update
November 2021	WSIB asks Trust Commission ISS to consider risk tolerance
November 2021	WSIB updates Trust Commission
December 2021	WA Cares education session provided to WSIB Board
April 2022	WSIB updates Trust Commission ISS on investment plan and receives feedback on investment recommendation and policy
June 2022	WSIB Board approved WA Cares investment recommendation and policy
July 2022	WSIB updates Trust Commission on investment plan
November 2022	WSIB updates Trust Commission ISS on investment plan
July 2023	WSIB implements new investment strategy

INVESTMENT POLICY AND STRATEGY

The WSIB approved the Long-Term Services & Supports Trust Account investment policy at its June 16, 2022, meeting



The customized fixed income investment program is designed to maximize return at a prudent level of risk while abiding by the constitutional limitations

The investment program will be actively managed by the WSIB with the following characteristics

- Invested in interest-producing debt securities with varying maturity, structure, and credit ratings
- Expected to meet or exceed the return of the Bloomberg U.S. Universal Index
- Managed to maintain a portfolio duration within plus or minus 25 percent of the index

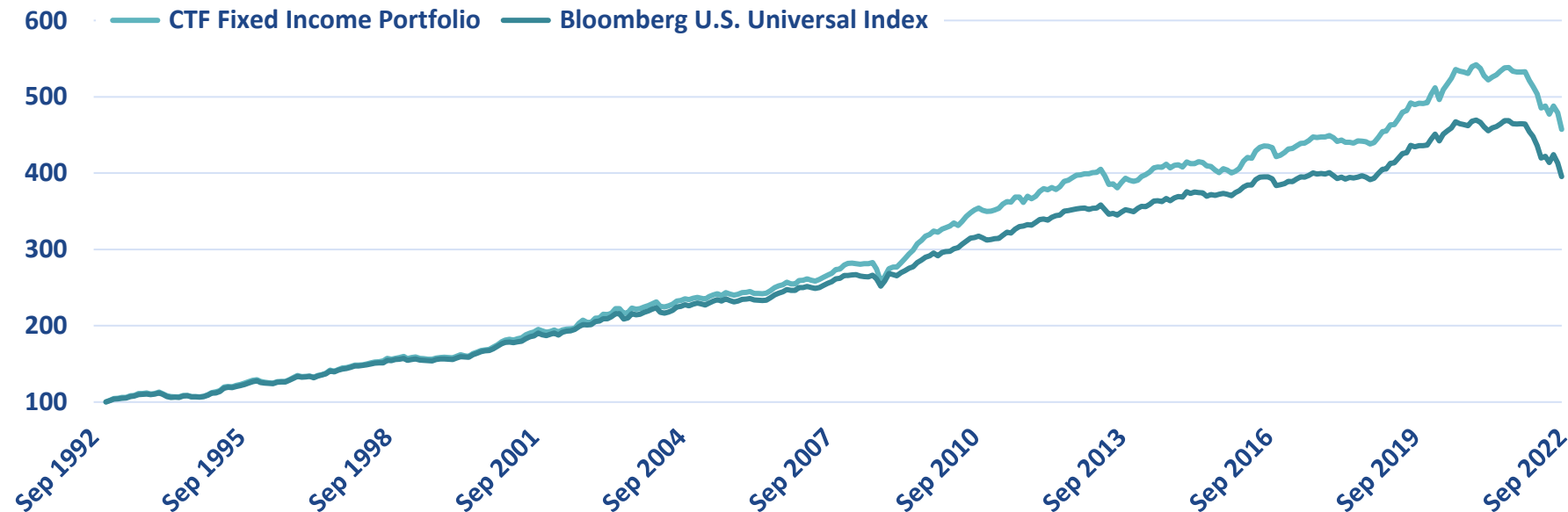
The Board-adopted policy can be found at https://www.sib.wa.gov/docs/policies/2_35_600.pdf

WSIB FIXED INCOME HISTORICAL PERFORMANCE

The WA Cares fund will be invested in a similar manner to the fixed income component of the Retirement Funds' Commingled Trust Fund (CTF)

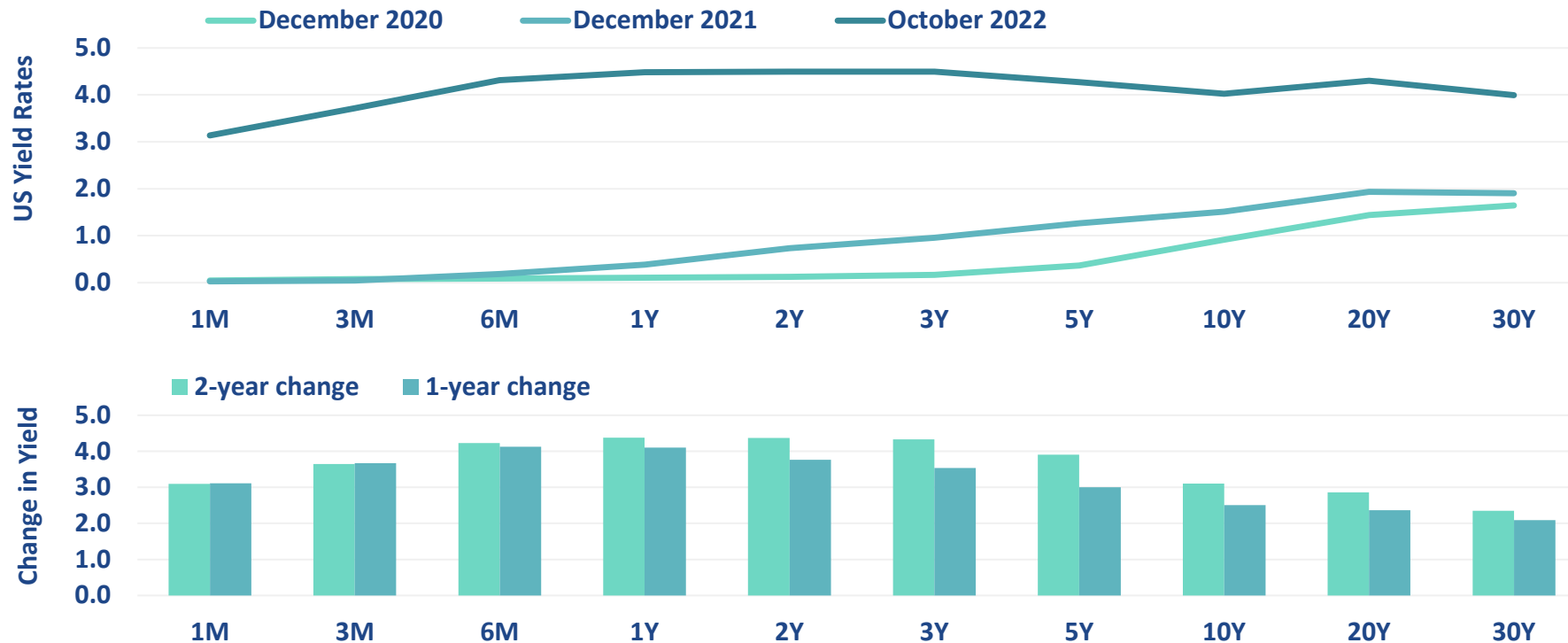
The WSIB has an experienced and stable fixed income team with a long history of generating strong risk-adjusted performance. The co-portfolio managers have over 50 years of combined experience managing the WSIB fixed income portfolios

GROWTH OF \$100 SINCE INCEPTION



- The current inflationary environment has created a challenge to global central banks
- Fixed income yields are rising from a historically low levels and are expected to rise further
- Building a portfolio over time helps diversify the impact of changing rates
- The following graphs show the shift in U.S. government yield curves in the last 3 years

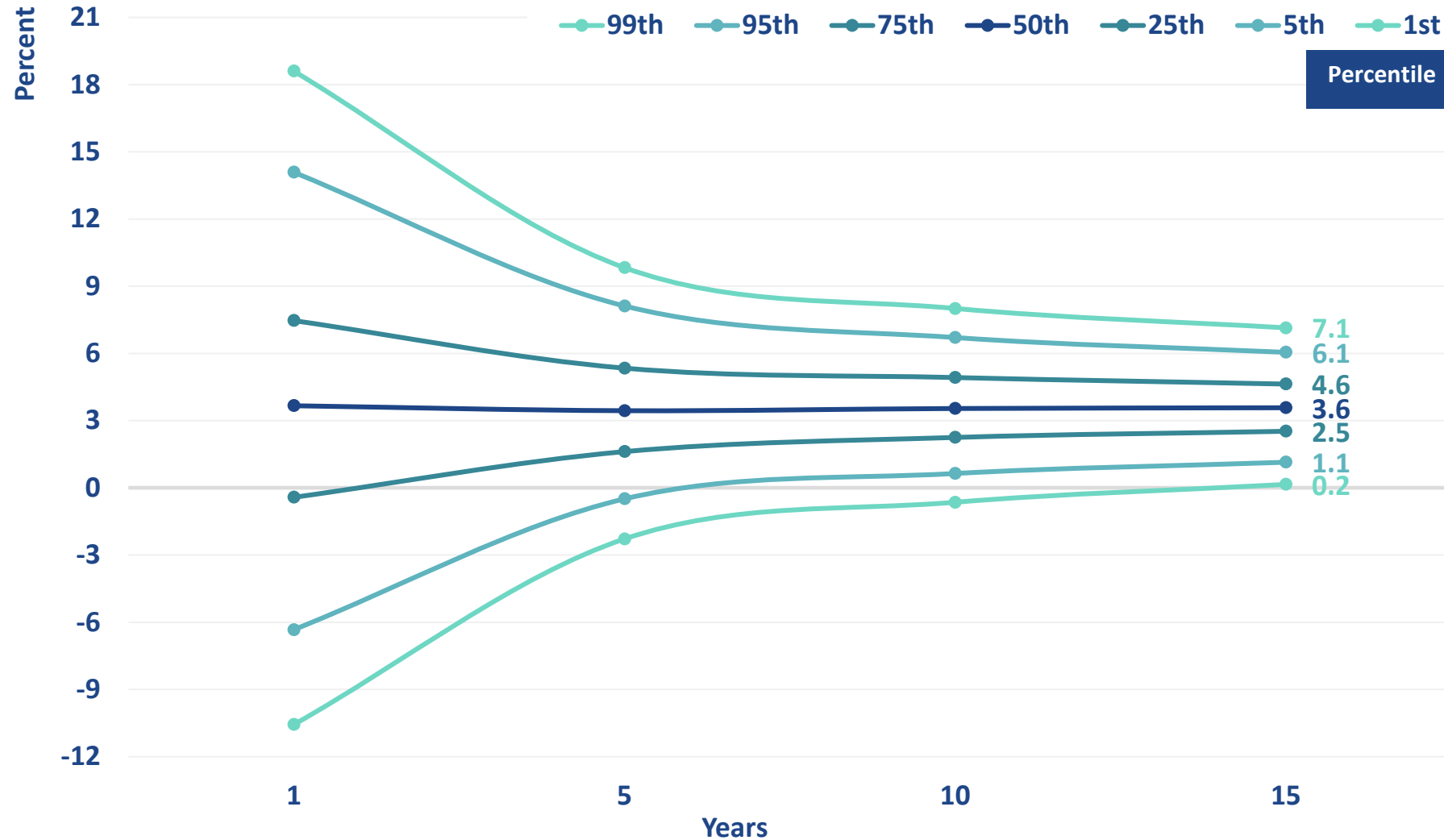
U.S. Government Yield Curve



	Allocation
Diversified Fixed Income	100.0%
Median 15-year return	3.6%
Standard Deviation	6.0%
Sharpe Ratio	0.62
Probability of achieving a 15-year return of 3.5 percent or greater	52.0%
Probability of experiencing a 1-year negative return	27.4%
Probability of experiencing a 5-year negative return	8.6%

- Milliman provided the WSIB with two cashflows scenarios from the most recent 2020 report
- The more conservative scenario projected that approximately 45 percent of wage earners would opt out at the start of the program
- The other scenario projected that approximately 3 percent of wage earners would opt out
- Modeling of the recommended diversified fixed income portfolio projects the program will retain positive balances for at least 4 decades under both scenarios

PORTFOLIO SIMULATED EXPECTED RETURN



CURRENT STATUS

WSIB Institutional Relations Director and Investment Accounting and Administration Director have been collaborating with the Cross-Agency Finance Group



WSIB is ready to invest once assets received

- **Accounts established at WSIB's custodian bank**
- **Investment policy adopted by WSIB in June 2022**
- **Payroll deductions to start in July 2023**
- **WSIB anticipates receiving assets for investment in the third quarter 2023**

Quarterly investment performance will be presented to the Trust Commission Investment Strategy Subcommittee following the first full quarter of investing implementation

CONTACT INFORMATION

Web Site

- <http://www.sib.wa.gov>



Address

- **2100 Evergreen Park Drive SW**
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Olympia, WA 98504

Phone Number

- **(360) 956-4600**



Review of Milliman's 2022 Actuarial Study

*Presentation to: LTSS Trust Commission
Investment Strategy Subcommittee*

Matthew M. Smith, State Actuary



Today's Presentation Topics

- Takeaways from Milliman's 2022 Actuarial Study
- Sensitivity testing on assumed investment returns
- Investment policy alternative

MILLIMAN REPORT
2022 WA Cares Fund Actuarial Study
Commissioned by the Office of the State Actuary
October 20, 2022

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Milliman's 2022 Actuarial Study

- Prior study published in fall 2020
- Updated 2022 study reflects current law
- Includes relevant changes to covered population, plan design, and assumptions
 - Investment return assumption updated to reflect the investment policy adopted by the WSIB—100% investment in a diversified fixed income portfolio
- Some updates improve program's expected financial outlook; some updates worsen it
- Milliman will review the updated analysis in detail at the November LTSS Trust Commission meeting

Takeaways from Milliman's 2022 Actuarial Study

- Evaluation of projected fund solvency
- Lower expected premium rate required from last study
- Improved funded status from last study
- Based on current law benefits as of September 2022
- See [Milliman's 2022 Study](#) for supporting information

Evaluation of Projected Fund Solvency

- A solvent fund will have sufficient expected revenue, based on the current law premium rate, to pay all expected future program benefits and expenses over the projection period
 - Current program projections extend through June 30, 2098
- Based on the data, assumptions and methods used in Milliman's 2022 Actuarial Study, and current law as of that study, the program is projected to be solvent for most scenarios evaluated including the base plan scenario
- There were scenarios identified that, without corrective action, could lead the program to have insufficient revenue to provide for full program benefits over the entire projection period

Lower Expected Premium Rate Required From Last Study

- The required premium rate for the base plan scenario decreased from 0.66% to 0.57%
 - Before any margin from Risk Management Framework
- Milliman noted in their 2022 study that uncertain outcomes concerning voluntary exemptions and the length of the claim adjudication period could decrease that rate to 0.52% or increase it to 0.63% depending on the outcomes
- As with most actuarial projections, actual results will vary, and the actual required premium could fall outside this range
- Milliman also performed sensitivity analysis to inform how the required premium could change under different assumptions

Improved Funded Status From Last Study

- OSA estimates a base plan funded status of 104% versus 91% from the 2020 study, assuming assessment of 0.58% premium rate
- Funded status represents the ratio of projected revenue to projected program benefits and expenses, in today's dollars
- OSA plans to finalize this measurement later this year

Sensitivity Testing on Assumed Investment Returns

- Future rates of investment return are uncertain and could be higher or lower than assumed
- In their 2022 study, Milliman tested the impact on the premium rate from increasing and decreasing the assumed return by 1% each year
 - A long-term assumed rate of 5% and 3% instead of 4% in the base plan

**Figure 26:
Washington Office of the State Actuary
Assumption Sensitivities – Investment Rates
Level Premium Assessment Required**

Test	Level Premium Assessment Required	% Change from Base Plan
Base Plan	0.57%	n/a
Higher net investment earned rates	0.54%	-0.03%
Lower net investment earned rates	0.59%	0.02%

Investment Policy Alternative

- Base plan analysis assumes 100% investment in a diversified fixed income portfolio
- In their 2022 study, Milliman modeled an investment policy alternative that included 30% investment in equities and 70% in a diversified fixed income portfolio
 - Would require an amendment to the state constitution to invest in equities

**Figure 15:
Washington Office of the State Actuary
Plan Alternatives – Investment Policy
Level Premium Assessment Required**

Test	Level Premium Assessment Required	% Change from Base Plan
Base Plan (3.5% grade to 4.0%)	0.57%	N/A
30% allocation in equities (4.9% grade to 5.2%)	0.53%	-0.03%

Questions? Please Contact: The Office of the State Actuary

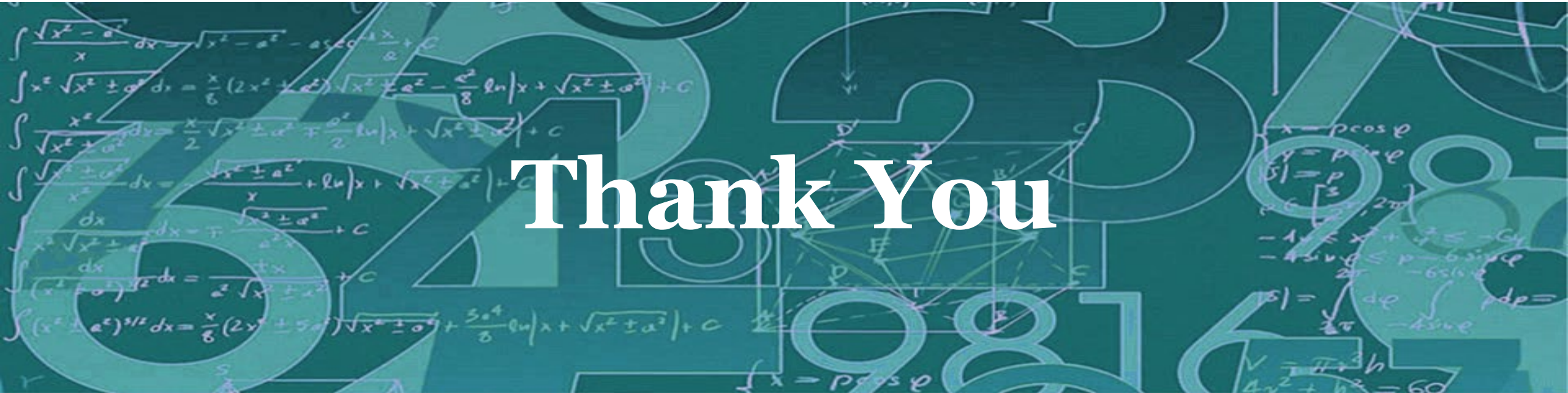
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Matt Smith

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Thank You



NEXT ISS MEETING – June 2023

- Proposed Agenda
 - Investment Plan Status Report
 - Update from Cross-Agency Finance Group

PUBLIC COMMENT

Questions about WA Cares Fund?

- Visit wacaresfund.wa.gov
- Submit questions to: wacaresfund@dshs.wa.gov

Sign up for Public Comment



Attendees: click on the Raise Hand icon to sign up for public comment



Phone callers: press *9 to raise your electronic hand.

Then, when recognized, press *6 to unmute yourself

WRAP UP

- Action items review
- Adjourn

THANK YOU



WA
CARES
FUND

