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

September 12, 2023

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: Modeling of Potential WA Cares Fund Program Changes With Portability

Dear Luke:

Per your request, we analyzed several alternative program packages for WA Cares Fund being considered by the Long-Term Services and Supports (LTSS) Trust Commission. Our work estimates the premium assessment to help assess the feasibility of adjusting WA Cares Fund program features with a portability benefit.

The results shared herein build off the structure of the plan feature alternatives described in our 2022 Actuarial Study. The results in this deliverable provide premium assessment estimates for various combinations of plan feature alternatives as requested by DSHS. The 2022 Actuarial Study should be read in its entirety in combination with this deliverable.

The estimates provided in this deliverable are prepared to assist in evaluating the viability of selecting benefit features for WA Cares Fund. 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.

RESULTS SUMMARY

Figure 1 displays the point estimate premium assessment associated with each alternative package requested.

Figure 1
Washington office of the State Actuary
Plan Alternative Premium Results

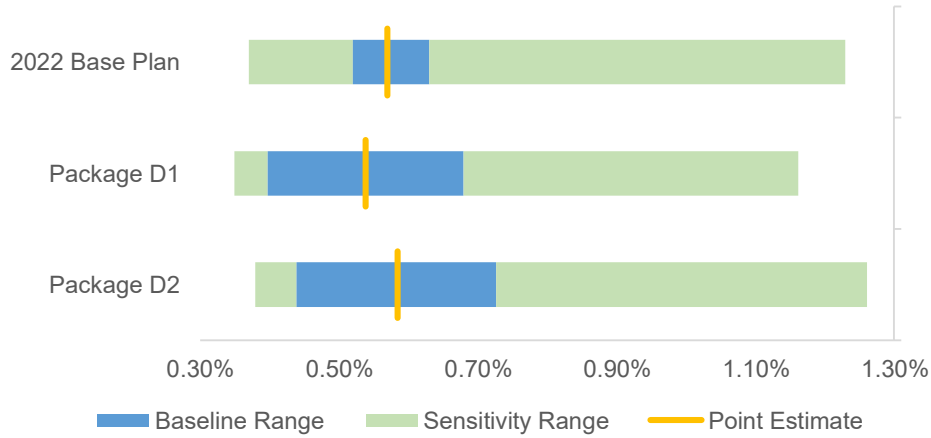
		In-State Benefit Eligibility Threshold					
Package	Portable benefits subject to HIPAA benefit eligibility threshold	NFLOC[1] Medicaid definition	90-day forward certification	1,000 annual hours vesting requirement	Portable benefits buy-in eligibility: 3 years in-state premiums	Investment strategy with 30% equities	Estimated Premium Assessment
A1	X	X	X			X	0.56%
A2	X	X	X				0.60%
B1	X	X	X	X		X	0.55%
B2	X	X	X	X			0.59%
C1	X	X	X		X	X	0.55%
C2	X	X	X		X		0.59%
D1	X	X	X	X	X	X	0.54%
D2	X	X	X	X	X		0.58%

[1]*Nursing facility level of care (NFLOC) Medicaid definition; see Methodology and Assumptions section for background.*

While we present point estimates to illustrate the relative expected differences between plan packages in Figure 1, we calculate the estimated cost for each of these packages as a range. The "baseline range" of results can be especially relevant when considering benefit features with a voluntary component where participation and adverse selection will affect the financial outcomes (such as the portability benefit considered in this letter). Furthermore, we found results to be highly sensitive to small changes to some modeling assumptions. Figure 2 illustrates potential ranges of premium

estimates produced as a result of varying participation and adverse selection ("baseline range") and varying other model assumptions ("sensitivity range") for Packages D1 and D2 from Figure 1 as well as the Base Plan from the 2022 Actuarial Study for comparison. Note, we only include the "D" Packages combining all alternative features tested in this letter for ease of illustration in Figure 2; packages A through C would look similar to the "D" Packages presented.

Figure 2
Premium Assessment Range



METHODOLOGY AND ASSUMPTIONS

For each modeling request, we started with all plan features, methodology, and assumptions consistent with the 2022 Base Plan in our 2022 Actuarial Study. We then modified plan features, methodology, and assumptions for each request as outlined below.

All packages include a portable benefit for individuals who have moved out of Washington after contributing to the program for one year, except the alternate test changing the minimum number of years to three. We assumed portable benefits would be structured consistently with the specifications outlined in Figure 3 below. Adding portable benefits increases the required premium assessment compared to the Base Plan, since Washington residents that move out of state may contribute to the program but will not be eligible to receive benefits under current statute. Portability allows for these individuals to receive benefits at an equivalent dollar amount to in-state benefits if they "buy in" to the program.

It is especially worth noting, the participation (25%) and adverse selection (25% higher claim levels than premium levels) assumed for the presented results. The level of participation and adverse selection have a large influence on the cost of a portable benefit and different assumptions would yield different premium assessment rates. The participation and adverse selection assumptions are chosen for illustrative purposes and are not intended to represent a "best estimate" of these unknown parameters.

Figure 3 Washington Office of the State Actuary Modeling Specifications for Base Portable Benefit	
Specification	**Portability Structure Assumption**
Qualified Individuals / "Vesting"	Anyone with at least one year of premiums paid in-state will be eligible to "buy-in" portability coverage (or alternate test of three years).
Out-of-State Premium Amount	Last "in-state" premium assessed, adjusted for wage inflation (assumed to be 3.5% per year); to be paid until normal retirement age (age 67).
Benefit Structure	Reimbursement (same as in-state)
Benefit Amount	$36,500, indexed to CPI (same as in-state)
Benefit Eligibility Threshold	Health Insurance Portability and Accountability Act (HIPAA) definition
Premium Participation Scenario	25%
Adverse Selection	We assume 25% higher claims are added relative to premium participation. This would imply that claims are higher than average for those who elect to participate and / or premiums are lower than average for those who elect to participate. For example, if 25% of individuals in this population contribute to premiums, we assume 50% of claims are added to the program's cash flows.

Portable benefits subject to HIPAA benefit eligibility threshold

Since it may be more feasible for the program to administer an out-of-state benefit using a more universally understood threshold, we were requested to assume individuals out-of-state would need to meet the Health Insurance Portability and Accountability Act (HIPAA) eligibility threshold, regardless of the benefit eligibility threshold for individuals living in-state. The HIPAA threshold is defined as needing assistance with two or more activities of daily living (ADLs), where the individual is expected to meet the definition for at least 90 days, or severe cognitive impairment. We estimate portability costs will be lower under a HIPAA definition than if out-of-state individuals were subject to the same benefit eligibility threshold as in-state individuals. This determination is based on the following key criteria, which are defined differently under the State of Washington Medicaid program and the HIPAA definition:

- Different pathways (e.g., assistance needed for one ADL in some cases to qualify under Medicaid compared to two ADLs for HIPAA)
- Different level of functional assistance required by ADL (e.g., lower threshold under Medicaid than HIPAA in some cases)
- A larger number of qualifying conditions (e.g., 10 ADLs considered under some pathways for Medicaid compared to six ADLs considered under HIPAA)
- No requirement that the disability is expected to last for a minimum number of days (compared to HIPAA with a 90-day forward certification)

In-State Benefit Eligibility Threshold: Nursing facility level of care (NFLOC) Medicaid definition

The 2022 Base Plan assumes benefit eligibility criteria consistent with the State of Washington Medicaid program, which includes a nursing facility care (NFC) pathway[1] and the Medicaid personal care (MPC) pathway.[2] The NFLOC Medicaid threshold tests considered in this letter assume a benefit eligibility threshold consistent with the "WA Medicaid LTSS Requirements" outlined in the Benefit Eligibility Comparison Chart provided on May 31, 2023 by the Washington Department of Social and Health Services (DSHS). The primary change in the chart was to remove the MPC pathway, which makes the benefit eligibility threshold more restrictive relative to the 2022 Base Plan structure (resulting in a decrease to the premium assessment).

[1] https://apps.leg.wa.gov/wac/default.aspx?cite=388-106-0355
[2] https://apps.leg.wa.gov/wac/default.aspx?cite=388-106-0210

To help estimate the cost of the NFLOC threshold, we also compared the NFLOC threshold to the HIPAA eligibility threshold. There are multiple differences between the NFLOC threshold and the HIPAA eligibility threshold, but we estimate the NFLOC threshold to be generally less restrictive relative to the HIPAA threshold for three main reasons:

- The NFLOC threshold includes medication management as one of the applicable ADLs. This not one of the six ADLs included in the HIPAA eligibility criteria.
- The NFLOC threshold includes "cognitive impairment" in its requirements, while the HIPAA threshold requires "*severe* cognitive impairment."
- Under the HIPAA threshold there is requirement that the LTSS need is expected to last for at least 90 days. There is no such requirement under the NFLOC threshold.

Our Medicaid threshold modeling results represent a high-level estimate of the potential impact of this benefit threshold, but additional analysis (such as a clinical review of the differences relative to HIPAA requirements, or an analysis of Medicaid data) may be warranted if the eligibility threshold is to be officially incorporated into the program. Our current methodology for an NFLOC Medicaid threshold assumes incidence loads will fall in between the HIPAA threshold and the Medicaid threshold with both NFC and MPS pathways, which would lower the premium assessment by approximately three basis points relative to the 2022 Base Plan.

While the NFLOC threshold may serve as a proxy for the benefit eligibility threshold, it is our understanding that the ultimate benefit eligibility threshold for WA Cares Fund must abide by the three ADL format dictated by statute. As such, we expect the ultimate benefit eligibility threshold may yield a different required premium assessment rate than what we estimate using this proxy.

In-State Benefit Eligibility Threshold: 90-day forward certification

All packages include the addition of a 90-day forward certification of functional disability. The 90-day forward certification is a concept borrowed from the HIPAA benefit eligibility threshold and requires that claimants' LTSS need is *expected* to last for at least 90 days. The 90-day forward certification is not a waiting period.

We applied adjustments to reduce claim incidence and termination rates to reflect the introduction of a 90-day forward certification of functional disability. A reduction to claim incidence is assumed because a forward certification would reduce the number of claims covering short-term facility or home care needs expected to last less than 90 days. Claim termination rates for the first 90 days following the beginning of a claim are also assumed to decrease as short-term claims are removed.

We primarily relied on Milliman's 2020 *Long-Term Care Guidelines* to develop the adjustments by examining relative differences in historical claims experience from private market insurance plans with and without a 90-day forward certification of functional disability. We estimate this change alone would lower the premium assessment by approximately two basis points relative to the 2022 Base Plan.

1,000 annual hours vesting requirement

For the B and D packages, we assumed the program would require individuals to work 1,000 hours per year to earn a vesting credit (rather than the 500 hours assumed under the 2022 Base Plan consistent with current statute). We use data from the American Time Use Survey (ATUS) to estimate the percentage of the working population that fulfills the hours worked requirement each year. We observe that increasing the vesting requirement from 500 to 1,000 hours would have a minimal impact to the premium assessment (i.e., less than one basis point reduction relative to the 2022 Base Plan) since the data suggests a small percentage of the population works between 25% and 50% of full-time hours.

Portable benefits buy-in eligibility: 3 years in-state premiums

For the C and D packages, we used the base portable benefit specifications outlined in Figure 3, but changed the eligibility requirements for individuals to "buy-in" portable coverage from one year of in-state premiums paid to three years of in-state premiums paid. We estimate changing the minimum years to three would lower the premium assessment by approximately one basis point relative to a portability benefit with a minimum of one year of in-state premiums.

Investment strategy with 30% equities

For the packages ending in "1," we assumed the program's investment strategy would utilize equities. For these packages, we modeled a 70% / 30% blend between the 2022 Base Plan investment approach and equities, respectively. This is modeled by blending the Base Plan vector with an assumed constant 8% equity return using 70% and 30% weights, respectively. We understand a state constitutional amendment would be needed to allow investing in equities. The packages ending in "2" assumed the program's investment strategy would utilize the 2022 Base Plan investment approach (i.e., no equities).

Although higher returns are expected on average over the long-term, there is more inherent risk and volatility of returns from year to year as the proportion of investments in equities increases in a portfolio. This volatility may also be more impactful in different years depending on the shape of the cash flows and the level of pre-funding inherent in financing program benefits. If the program intends to invest in equities, the program may want to consider targeting a higher level of margin than it would if utilizing a less volatile investment strategy as part of cash flow testing.

UPCOMING UPDATES TO METHODOLOGY AND ASSUMPTIONS

As discussed with DSHS and OSA, we anticipate updating our baseline analysis in 2024. This will include updating some of the assumptions and methodology in our 2022 Actuarial Study to the latest available data. Examples of updated data and information that we anticipate incorporating into our 2024 analysis (but are not incorporated in this letter) include the following:

- The latest investment projections as provided by the Washington State Investment Board
- The latest OASDI Trustees Report projections
- Emerging program data (such as exemption and revenue data)
- Updated economic assumptions, such as wage and worker projections
- Updated census and demographic data for Washington

CAVEATS AND LIMITATIONS

This information is intended for the use of Washington Office of the State Actuary (OSA) and the Washington 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 estimated premium assessment impacts for alternative program features compared to the 2022 Base Plan presented in the 2022 WA Cares Fund Actuarial Study provided on October 20, 2022, which should be read in its entirety with this letter. In completing this analysis, we relied on information provided by Washington State OSA, DSHS, SIB, and ESD, 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.

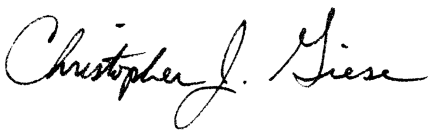
Milliman has developed certain models to estimate the values included in this letter. The intent of the models is to estimate required revenue for alternative program features of the WA Cares Fund. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, 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.

❖ ❖ ❖ ❖ ❖

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

Sincerely,



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

CJG/bl