

## October LTSS Trust Commission Investment Strategy Subcommittee Meeting Minutes

Meeting Date		October 25, 2023		Time		1:00 – 2:30 p.m.	
Attendees							
<input checked="" type="checkbox"/>	Representative Paul Harris (Chair)	<input type="checkbox"/>	Representative Frank Chopp	<input checked="" type="checkbox"/>	Senator Curtis King	<input checked="" type="checkbox"/>	April Amundson, Employment Security Department (Janette Benham designee)
<input checked="" type="checkbox"/>	Senator Karen Keiser	<input checked="" type="checkbox"/>	Representative Nicole Macri	<input checked="" type="checkbox"/>	Representative Bryan Sandlin	<input type="checkbox"/>	Senator Judy Warnick
<input checked="" type="checkbox"/>	Senator Steve Conway	<input checked="" type="checkbox"/>	Secretary Jilma Meneses, Department of Social and Health Services (Bea Rector designee)	<input type="checkbox"/>	TBD, person considered experienced and qualified in the field of investment, #1	<input type="checkbox"/>	TBD, person considered experienced and qualified in the field of investment, #2
<input type="checkbox"/>	TBD, person considered experienced and qualified in the field of investment, #3	<input type="checkbox"/>	TBD, person considered experienced and qualified in the field of investment, #4	<input type="checkbox"/>		<input type="checkbox"/>	
Guest Speakers							
<input checked="" type="checkbox"/>	Ben Veghte, Department of Social and Health Services	<input checked="" type="checkbox"/>	Andrea Meewes-Sanchez, Department of Social and Health Services	<input checked="" type="checkbox"/>	Chris Hanak, Washington State Investment Board	<input checked="" type="checkbox"/>	Matt Smith, Office of State Actuary
<input checked="" type="checkbox"/>	Rebecca Grady, Employment Security Department	<input checked="" type="checkbox"/>	Steve Zawoysky, Employment Security Department	<input checked="" type="checkbox"/>	Nicole Ross, Employment Security Department	<input checked="" type="checkbox"/>	Chris Giese, Milliman

Topic	Minutes
Welcome and Call to Order	<ul style="list-style-type: none"> <li>Investment Strategy Subcommittee members in attendance indicated above.</li> <li>Representative Harris reviewed the meeting goals.</li> <li>Chair recognizes new member, Representative Bryan Sandlin.</li> </ul>
Approve Consent Agenda	<ul style="list-style-type: none"> <li>No objections were made; items were adopted.</li> </ul>
WA Cares Fund Program Refresh	<p><b>Key program details per current statute (RCW 50B.04):</b></p> <ul style="list-style-type: none"> <li><b>Premium rate</b> - \$0.58 cents for every \$100 earned.</li> <li><b>Lifetime benefit maximum</b> –\$36,500, adjusted annually up to inflation, paid directly to providers.</li> <li><b>Three pathways to qualified individual status:</b> <ul style="list-style-type: none"> <li>Contribute 10 years without interruption of five or more consecutive years.</li> <li>Contribute 3 of the last 6 years from the date of application for benefits.</li> <li>For near-retirees (born before 1968): contribute at least one year, earning one-tenth of the lifetime benefit amount for each year contributed.</li> <li>A person must work 500 hours during a year to receive credit for a qualifying year.</li> </ul> </li> <li><b>Eligible beneficiary</b> <ul style="list-style-type: none"> <li>A qualified individual who requires assistance with at least 3 activities of daily living (i.e., bathing, dressing, eating, ambulation, medication management, toilet use, transfer, etc.)</li> </ul> </li> </ul>
Update on Premium Launch	Rebecca Grady (ESD), Steve Zawoysky (ESD), and Nicole Ross (ESD) presented slides on Quarterly Reporting and Employer Support



### **Employer reporting and compliance continuous improvement**

- WA Cares is built on the same reporting system as WA Paid Family and Medical Leave (Paid Leave).
  - ESD has been receiving Paid Leave quarterly reports since May 2019.
  - A total of about 3 million employer quarterly reports received to date.
- Employers submit one report for WA Cares and Paid Leave.
  - Legislature aligned key aspects of these programs, such as definition of wages.
- Continue to build on solid foundation, iterating on improvements to employer education and compliance activities.
  - Ensure alignment and distinction where needed between programs to facilitate employer customer success.

### **Reporting and premium process**

- **Employers submit quarterly report of hours and wages.**
  - Employer agents / third party administrators may submit on employer's behalf.
  - ESD customer support is available via phone and email/secure message.
  - General customer support may escalate to specialized Employer Reporting team as needed.
- **System calculates and invoices.**
  - Quarterly report includes employer and employee identifiers, wages paid, and the associated hours worked, flag for exemption.
  - System uses employer wage report data to calculate premiums due for each program.
  - Generates invoices for premiums to be remitted.
  - Remittance may be via check, credit card, IAP, or ACH electronic transfer.
  - Employer agents / third party administrators may submit on employer's behalf.
- **Employers remit premiums.**
  - Remittance may be via check, credit card, IAP, or ACH electronic transfer.
  - Employer agents / third party administrators may submit on employer's behalf.
- **ESD finance team processes.**
  - From invoice generation to payment receipt and accounting.
  - Receipt of payment posted to customer account.
  - Workflows to issue refunds, assess NSF fees, and process other payment returns.
  - Inter-fund payment transfer between programs.
  - Account research as needed.
  - Fund balance and financial reporting.
  - Transition funds to SIB in accordance with cross-agency account workgroup planning.

### **Employer Support and compliance**

- **Ongoing Proactive activities and resources – outreach, education, communication.**
  - Employer-focused webinars on quarterly reporting and premiums.
  - Regularly updated employer self-service toolkit.
  - Annual communications to employers regarding key program and reporting updates.
  - Monthly employer email newsletter.
  - Employer agent / third party administrator outreach.
- **Specialized employer reporting team researches and resolves account issues related to:**

- Unfiled reports.
- Report corrections needed.
- Unpaid or underpaid premiums.
- Overpaid premiums and refund validation.
- **Email communications to employers on a quarterly basis who have:**
  - A missing report for most recent quarter.
  - Possible balance due.
  - Possible credit balance.
- **Letters sent related to:**
  - Past missing reports.
  - Credit balances.
- **Compliance Division Audit Team and Fraud Division**
  - Audit team conducts regular audits of employers, which includes hours/wages reporting.
  - Fraud division investigates any suspected fraud.

**First quarterly reporting experience**

- **WA Cares reporting launch went well.**
  - Over 10K employer quarterly reports processed in first week of October.
  - Most quarterly reports come in at end of reporting months.
- **Premium totals for each quarter typically available at end of month following each reporting period.**
  - Allows time for data to reach preliminary maturity.
  - Quarterly reporting at Commission meeting beginning in December.
- **Sharing data with OSA for actuarial valuation and program solvency reports**
  - Projections vs actuals to be assessed in line with the Commission's Risk Management Framework.

**Open to questions:**

- King: Regarding the employer remittances, I am assuming the state pays credit charges, or does the employer? And are there charges or expenses with an IAP or ACH transfer, and who pays those?
  - Zawoysky: Credit card fees are charged to the employer or whoever is submitting the payments. The state does not pay for those fees, and there are no additional fees for IAPs or ACH transfers.
- Conway: How do you manage independent contractors who opt into the plans? And I am also curious about people who do out-of-state contracting.
  - Grady: Self-employed folks, including independent contractors, who have opted into the program create and account and submit quarterly reports through the same process as employers. Verification will fall under compliance activities, like periodic audits.
  - Conway: Do we have a large number of self-employed folks and independent contractors? **ACTION ITEM**
  - Grady: I would have to get back to you on that, but it is not a huge number.
- King: You start getting the funds October 1<sup>st</sup>, but you do not transfer the funds until November 1<sup>st</sup>. Why is that? Will it be standard practice to wait so long to get the money over so it can be invested?
  - Zawoysky: With Paid Family and Medical Leave, we receive about 80% of the premiums on the last day of the reporting month, in this case October 31<sup>st</sup>. It then takes one to two weeks to book all the transactions to employer accounts. We then must make our reconciliations before we can get them into the accounting system. So

	<p>typically, we're looking at a two-to-three-week time period after the close of the reporting month before we do those transfers.</p> <ul style="list-style-type: none"> <li>○ King: Does that mean the employer has up to 30 days to make that payment?</li> <li>○ Zawoysky: It is due at the close of the reporting month. Some employers will pay sooner, but with Paid Family and Medical Leave, we anticipate the vast majority will come in the last day of the month.</li> <li>○ King: When a contractor purchased on credit, you usually must pay by the 10<sup>th</sup> of the following month. But in this case, it seems like the employers have too much time to pay on a bill they have already collected money for.</li> <li>○ Zawoysky: It takes time for both the employer and agents to be able to report in their own accounting systems, and then to enter that information into the state system. If premiums aren't due until the 31st, we have many employers who will submit their invoices earlier, but not pay them until the end of the month.</li> <li>● Conway: You also handle Unemployment Insurance. Is the billing separate from Paid Family Leave and WA Cares? <ul style="list-style-type: none"> <li>○ Ross: Yes, Paid Family and Medical Leave and WA Cares are together, and Unemployment Insurance is separate.</li> </ul> </li> <li>● King: How many people are on the audit teams and in the fraud division? <ul style="list-style-type: none"> <li>○ Ross: We have 10% audit team and about 10% on our fraud team, so about 9 or 10 people on our fraud team.</li> <li>○ Grady: we are moving to a more unified approach across programs, so employers don't get audited multiple times.</li> </ul> </li> <li>● King: Do you have an estimate of how many dollars you have received so far and how much do you expect by the end of the month? <b>ACTION ITEM</b> <ul style="list-style-type: none"> <li>○ Grady: We'll have to get back to you on that.</li> </ul> </li> <li>● Conway: Did Milliman put together anticipated revenue for this plan by quarter or by year? <ul style="list-style-type: none"> <li>○ Smith: Not by quarter. They did annual projections for premiums, investment return, expenses, and benefit payments.</li> <li>○ Conway: We won't be able to measure actual revenue against anticipated revenue until the end of 2024.</li> <li>○ Smith: We could do crude projections but there are many variables that could affect actual amounts. When you've got a year or two of data, you can make some more comfortable conclusions. However, if there are significant differences, they will be noted, and if it's something we believe will change the long-term financial outlook of the program, we will bring that to you. That's part of the Risk Management framework. My main piece of advice, is if you are looking at just one quarter worth of premium date, be very careful what you do with that because one variable over a single quarter would likely have minor implications on the 75-year projection.</li> </ul> </li> </ul>
<p>WA Cares Investment Plan Status Report</p>	<p>Chris Hanak (WSIB) provided an update on the investment plan.</p> <p><b><u>Investment Policy and Strategy</u></b></p> <ul style="list-style-type: none"> <li>● The WSIB approved the Long-Term Services &amp; Supports Trust Account investment policy at its June 16, 2022, meeting.</li> <li>● The customized fixed income investment program is designed to maximize return at a prudent level of risk while abiding by the constitutional limitations.</li> <li>● The investment program will be actively managed by the WSIB with the following characteristics: <ul style="list-style-type: none"> <li>○ Invested in interest-producing debt securities with varying maturity, structure, and credit ratings.</li> <li>○ Expected to meet or exceed the return of the Bloomberg U.S. Universal Index</li> <li>○ Managed to maintain a portfolio duration within plus or minus 25 percent of the index.</li> </ul> </li> </ul> <p><b><u>WSIB Fixed Income Historical Performance</u></b></p>



	<ul style="list-style-type: none"> <li>• The WA Cares fund will be invested in a similar manner to the fixed income component of the Retirement Funds' Commingled Trust Fund (CTF)</li> <li>• The WSIB has an experienced and stable fixed income team with a long history of generating strong risk-adjusted performance. <ul style="list-style-type: none"> <li>◦ The co-portfolio managers have over 50 years of combined experience managing the WSIB fixed income portfolios.</li> </ul> </li> </ul> <p><b><u>Current Status</u></b></p> <ul style="list-style-type: none"> <li>• WSIB is ready to invest once assets received. <ul style="list-style-type: none"> <li>◦ Accounts established at WSIB's custodian bank.</li> <li>◦ Investment policy adopted by the WSIB in June 2022</li> <li>◦ Payroll deductions began in July 2023</li> <li>◦ Initial transfer of assets to WSIB for investing expected in mid-November 2023</li> </ul> </li> <li>• Quarterly performance measurement will be presented to the Trust Commission Investment Strategy Subcommittee following the first full quarter of investing after the Fund reaches \$250 million, which is expected to occur during the first quarter of 2024.</li> </ul> <p><b><u>Open to questions:</u></b></p> <ul style="list-style-type: none"> <li>• King: My understanding is that the first number of dollars that come in will be used to pay back expenses that have been incurred, somewhere around \$52 million. Does anybody know when that money will be paid back? Does it just go into the general fund? <b>ACTION ITEM</b> <ul style="list-style-type: none"> <li>◦ Veghte: The loan will get paid towards the end of the year, but not sure exactly of the date. We will follow up on this.</li> <li>◦ Hanak: It is our understanding those payments will be netted out before any payments come to the WSIB.</li> <li>◦ Veghte: That's correct.</li> </ul> </li> </ul>
Elect a new chair for 2024	<ul style="list-style-type: none"> <li>• Senator Keiser nominated Senator King to chair the Investment Strategy Subcommittee for 2024. There were no other nominations. The motion was seconded by Representative Sandlin. A vote was taken, the motion was passed unanimously.</li> </ul>
Public Comment	<ul style="list-style-type: none"> <li>• There was no public comment provided.</li> <li>• There was no written correspondence received.</li> </ul>
Review Agenda for next Meeting	<ul style="list-style-type: none"> <li>• Approve 10/25/2023 Investment Strategy Subcommittee meeting minutes.</li> <li>• Receive Finance Update</li> <li>• Update on WA Cares Fund Investment Status Report</li> <li>• Update from Cross-Agency Accounting Workgroup</li> </ul> <p><b><u>Open for questions:</u></b></p> <ul style="list-style-type: none"> <li>• Conway: If our next meeting is not until next year, when will the Subcommittee get an update on how revenue collection and loan repayments are going? <ul style="list-style-type: none"> <li>◦ Veghte: At the next full Commission meeting on December 12th.</li> <li>◦ Conway: Is it possible to get a quarterly report?</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>○ Veghte: Each Commission meeting is roughly quarterly. It will be helpful to have that discussed at the meeting to help interpret the numbers because the numbers alone are hard to interpret, based on seasonality and things like that.</li> </ul>
Wrap-up <ul style="list-style-type: none"> <li>• Action Item Review</li> <li>• Adjourn</li> </ul>	<ul style="list-style-type: none"> <li>• Action items captured in the table below.</li> <li>• Meeting adjourned at 1:57 pm</li> </ul>

#	Action Items	Lead	Due Date
1	Report back on how many self-employed folks and independent contractors are registered for the program?	ESD	12/12/2023
2	Report back with an estimate of how many dollars have been received so far and how much is expected	ESD	12/12/2023
3	Report back on when the loan will be paid back?	DSHS	12/12/2023