

July LTSS Trust Commission Investment Strategy Subcommittee Meeting Minutes

Meeting Information							
Meeting Date	July 31 st , 2024		Time	1:00 – 2:30 p.m.			
Attendees							
<input checked="" type="checkbox"/>	Senator Curtis King (Chair)	<input checked="" type="checkbox"/>	Representative Steve Conway	<input checked="" type="checkbox"/>	Senator Karen Keiser	<input checked="" type="checkbox"/>	Representative Frank Chopp
<input checked="" type="checkbox"/>	Representative Paul Harris	<input checked="" type="checkbox"/>	Representative Nicole Macri	<input type="checkbox"/>	Representative Bryan Sandlin	<input checked="" type="checkbox"/>	Senator Judy Warnick
<input type="checkbox"/>	April Amundson, Employment Security Department	<input checked="" type="checkbox"/>	Secretary Jilma Meneses, Department of Social and Health Services	<input checked="" type="checkbox"/>	Gary Bruebaker, person considered experienced and qualified in the field of investment, #1	<input checked="" type="checkbox"/>	Judy Kuschel, 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				
Guest Speakers							
<input checked="" type="checkbox"/>	Ben Veghte, Department of Social and Health Services	<input checked="" type="checkbox"/>	Luke Masselink, Office of State Actuary	<input checked="" type="checkbox"/>	Ibrahim Dembele, Employment Security Department	<input checked="" type="checkbox"/>	James Aber, State Investment Board
<input checked="" type="checkbox"/>	Rebecca Doane, Department of Social and Health Services	<input checked="" type="checkbox"/>	Porsche Everson, Facilitator	<input type="checkbox"/>		<input type="checkbox"/>	

Topic	Minutes
Welcome and Call to Order	<ul style="list-style-type: none"> Investment Strategy Subcommittee members in attendance indicated above. Senator King reviewed the meeting goals. Chair recognizes new members, Gary Bruebaker and Judy Kuschel
Approve Consent Agenda	<ul style="list-style-type: none"> No objections were made; items were adopted.
WA Cares Fund Program Refresh	<p>Key program details per current statute (RCW 50B.04):</p> <ul style="list-style-type: none"> Premium rate - \$0.58 cents for every \$100 earned Lifetime benefit maximum –\$36,500, adjusted annually up to inflation, paid directly to providers Three pathways to qualified individual status <ul style="list-style-type: none"> Contribute 10 years without interruption of five or more consecutive years Contribute 3 of the last 6 years from the date of application for benefits For near-retirees (born before 1968): contribute at least one year, earning one-tenth of the lifetime benefit amount for each year contributed A person must work 500 hours during a year to receive credit for a qualifying year



	<ul style="list-style-type: none"> • Eligible beneficiary <ul style="list-style-type: none"> ○ 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.) • Premiums begin July 1, 2023, benefits begin July 1, 2026
Finance Update	<p>Finance Update: Monitoring Early Experience (OSA)</p> <ul style="list-style-type: none"> • As part of the Risk Management Framework (RMF), Phase 1 is largely focused on data collection, monitoring, and updating actuarial projections • Actual experience will be used in future actuarial projections • When comparing actual to assumed data, sustained deviations or significant short-term deviations could have long-term impacts <ul style="list-style-type: none"> ○ Depending on the source of the deviation, it could take years before there is sufficient credible experience to modify assumptions based on actual experience ○ This is consistent with Phase 1 of the RMF • In the meantime, OSA and Milliman will be monitoring emerging experience and reporting on any impacts to long-term fund solvency. <p>Quarterly Finance Update (ESD)</p> <ul style="list-style-type: none"> • Premium Payments received from 4/1/2024 – 6/21/2024: \$347.2 million • Account transfers and retention since 4/1/2024 <ul style="list-style-type: none"> ○ \$347.2 million transferred to State Investment Board ○ \$1.56 million transferred to General Fund to complete Loan Payoff ○ \$12.1 million retained for FY24 budget appropriations and safety margin • WA Cares Fund Balance on 6/21/2024: \$16,849,726 <p><u>Open for questions</u></p> <ul style="list-style-type: none"> • Kaiser: It's been referred to a couple times not to put too much stock in the first prediction from Milliman of getting premium income of \$950 million, is that correct? <ul style="list-style-type: none"> ○ Dembele: We were projecting \$952 million, however we collected more than that. ○ Kaiser: Could I get a sense of scale here? What did we collect in the first 12 months? ○ Dembele: About \$1.1 billion. ○ Veghte: The \$1.1 billion is really for the three quarters of revenue, not four. Once four quarters are collected it should be about \$1.3 billion. ○ Dembele: The number I'm giving is what we have collected so far. So yes, if we include the 4th quarter it would be close to \$1.3 billion. • Bruebaker: It looks to me like the money gets transferred to the State Investment Board quarterly. Why not monthly so it can be invested more effectively? <ul style="list-style-type: none"> ○ Dembele: That would be for the program to decide, but right now we report quarterly. Let's say the quarter runs January through April, the reporting period ends at the end of April. So that's when we get all the premium collections and then initiate the transfer to SIB three weeks later. ○ Veghte: The revenue doesn't come in until the end of the quarter because that's simply how employer reporting works, so the agency doesn't have money until the end of each quarter and that is why it is done that way. It would be impossible to change that without disrupting employers.

	<ul style="list-style-type: none"> • Conway: I'm assuming that this finance update doesn't include investment income. Since we have some SIB people here today, how often will that investment income be reported to the Commission? <ul style="list-style-type: none"> ◦ Aber: We will give quarterly performance reports. We'll give updates to this committee and to the broader LTSS Commission semi-annually is what was decided at the last meeting. ◦ Conway: When you say semi-annually, does that mean December and July? ◦ Aber: We're still working through the meeting calendar and we're relying on folks from the Commission to give us guidance on that. We'd like to get at least two quarters of separation between each report we provide. • Conway: Most of this is fixed income return, right? It's different than stocks, so is it reasonable to get the return that quickly? <ul style="list-style-type: none"> ◦ Aber: The LTSS Fund is invested entirely in fixed income ◦ Veghte: We had looked at an April/May report out to the full Commission and a November report out to the ISS in terms of investment returns.
Investment Performance Update	<p>LTSS Investment Policy and Strategy</p> <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> ◦ 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 <p>LTSS Market Value and Performance as of June 30, 2024</p> <ul style="list-style-type: none"> • The first assets arrived in November 2023, and with subsequent contributions during the first two quarters of 2024, fund assets have grown to nearly \$1 billion. • Early in the fund's life, new contributions are large relative to existing fund balances. • Due to the pacing of these large new investments, early fund performance can differ from the benchmark. • As the portfolio is built out and becomes broadly diversified, performance is expected to track the index more closely. <p><u>Open for discussion</u></p> <ul style="list-style-type: none"> • Keiser: How did I miss that interest rates went down? I thought we were looking at pretty high interest rates. The Fed hasn't reduced its rate, so how did the interest rates go down? <ul style="list-style-type: none"> ◦ Aber: They've been really volatile over the past two years, so we've had bouts when they were rising and falling rapidly, so that's what we experienced in the fourth quarter. ◦ Hanak: The period immediately after the first infusion of cash, 10-year treasuries were right around 5%. Late November when we first started receiving the money to late December, the 10-year went all the way down to 3.8%. There's a lot of volatility with those rates that are out the curve as markets anticipate what's going to happen on the short end of the curve, what's going to happen in terms of an economic reaction to those changes in rates. The performance you see here is driven more by the longer interest rates than the shorter. As the money comes in, it's not all invested immediately. The team is looking for opportunities to buy credit bonds, which happens over a period of several weeks. In this period where we had this dramatic downward movement in the longer rates, bond rates performed very well in the last quarter, but it wasn't a great time to

	<p>be deploying new assets. The good news is this difference in performance, even though it's a lot of money, it's a relatively small piece of the overall fund. It's grown to nearly a billion dollars and this initial performance is about a quarter of that.</p> <ul style="list-style-type: none"> • Veghte: Is there any risk of interest rates continuing to drop in the coming years, and if so, do you have any kind of mitigation strategy? <ul style="list-style-type: none"> ○ Hanak: Think of underperformance relative to that benchmark. As the portfolio gets built out, you can think of it looking more like the underlying benchmark. It's actively managed so the team will make conscious efforts to overweight certain parts they think would outperform. It will very rapidly start to look more like the index. You see that already in this last quarter where you see that performance difference is very slight. We're 9 basis point there. Think of it as that slide that James showed with the chunky growth by quarter. If you compare the first large infusion to the second one in the first quarter of 2024, the fund is effectively doubling in size. Then subsequent quarter, it's grown by 50%. That growth from the cash flows will become incrementally smaller. The overall portfolio the team holds for bonds will change less significantly with each quarterly inflow. It will continue to grow and look more like the index as they diversify the holdings. ○ Aber: When you've got the money invested, a falling rate environment is actually good for bond prices. They move opposite one another. When rates are falling and we have money invested, generally that's going to be good for the price of your existing securities. • Conway: Are we meeting the assumption that the State Investment Board shared with us when we decided to go into fixed income. I think you were projecting 3.4%. Is that correct? <ul style="list-style-type: none"> ○ Hanak: It's too early to tell. The figures we talked about were based on capital market assumptions, which are long term. Every year, the team does a study and comes up with assumptions for all our asset classes which asks how each class is going to perform over a long-term period. We define that period as 15 years. Right now, we are three quarters into this, so when we're thinking about that assumption for all those long term modeling exercises, we really have to look over a longer horizon of years. • Conway: When the money comes in to you quarterly, does your portfolio change any? <ul style="list-style-type: none"> ○ Hanak: It does change incrementally, especially on the early part. As the team gets new money, they look at how the portfolio is aligned with the markets and if it's right where they want it, they'll just increase on the positions they have. If they want to move it in a particular direction, maybe slightly longer maturities, maybe slightly more credit, maybe slightly more government bonds or mortgages, they'll take that money and buy those assets to fine tune the portfolio. • Conway: I understand the interest in bonds in this, but most of us who had money in banks converted them into higher interest rates to make money with our money. I'm curious why that's not an option for the SIB? <ul style="list-style-type: none"> ○ Hanak: Do you mean in terms of different asset classes like equities? ○ Conway: When the program was launched, a constitutional amendment was proposed to the voters and that's a requirement for us to be able to invest in assets broader than fixed income. The voters rejected that, so it limited us to fixed income, which traditionally has meant government debt. We did a research project into what could actually own in terms of assets within the fixed income category and were happy with the result the legal team came up with that we could include credit bonds in the portfolio. We've expanded the range of assets we can own, but they are limited to fixed income.
<p>Cross-Agency Accounting Workgroup</p>	<p>Process Flow</p> <ul style="list-style-type: none"> • Employers collect premiums from employees • Employers remit premiums to ESD on a quarterly basis



- ESD deposits premiums into the Trust account
- ESD retains sufficient funds in the Trust account for administrative expenses and coordinates with DSHS to send the remaining balance to the SIB.
- SIB invests the reserves
- On the 21st of the following month, ESD and DSHS coordinate to send additional funds over to SIB in the middle of the quarter

Progress on Key Decisions

- New Chair – Rebecca Doane, Office Chief for Office of Accounting Services at DSHS
- The workgroup has established the Trust account and protocols for regular transfers to SIB.
- The workgroup will soon start moving towards Phase 2 of its work which entails establishing processes for estimating and retaining sufficient funds to pay not only administrative costs but also providers (benefit costs).

Open for questions

- Keiser: Do you know how much ESD retains for administrative expenses?
 - Dembele: So far we are retaining about 25%
 - Keiser: The Employment Security Department is keeping 25%?
 - Dembele: Yes, to make sure we have enough in the Trust Fund, instead of sending it all to the SIB.
 - Veghte: I think there's different terminology being used. I think what you're saying is the margin over what is needed for administrative expenses is 25% over what was appropriated.
 - Dembele: Yes, including also from the revenue side. If you want a breakdown of all the calculations, I can send them immediately following this meeting.
 - Keiser: I'd like that. It seems like ESD is a pass-through agent and not actually administering anything. DSHS administers the program.
 - Veghte: From a program perspective, as a whole we have appropriations for administrative expenses. What the Cross-Agency Accounting Workgroup has worked on is to make sure that whatever was appropriated by the legislature was withheld so the agencies could do their operations. ESD does have a team doing a lot of initiatives, like collecting premiums and administering exemptions. DSHS has a team, HCA has administrative folks, as does OSA. ESD is keeping a margin on top of that to make sure we don't run out of money if something happens. Whatever remains at the end of the year gets transferred over. So the actual amount that gets spent on administrative expenses is much closer to what Milliman projected, which was 3.5% of revenue plus 3.5% of expenditure. That is our administrative budget. It's not 25% of all of the revenue.
- King: Is ESD retaining the money set aside for DSHS' administrative expenses as well as those of every other group that's involved in this? I didn't follow that 25%.
 - Dembele: The 25% represents DSHS, HCA, and ESD.
 - King: Going back to Senator Keiser's question is that 25% of the income or not?
 - Dembele: Instead of giving an answer, how about I take an actual spreadsheet, and I can explain my thought process there, instead of giving a random number? Every fiscal year, the Senate and the House appropriate money for administrative expenses, but we're also retaining a percentage of it, and it could be those two equal the 25% I'm referring to. I can prepare the calculations for how we're doing this.
 - Meneses: I was going to suggest the same; that there is a detailed spreadsheet that shows the breakdown and the percentages. **ACTION ITEM**

	<ul style="list-style-type: none"> • Harris: I'm with everybody else, 25% seems like a lot to be retaining if it takes 3% to 6% to run it. That leaves you a lot of cushion. <ul style="list-style-type: none"> ○ Veghte: We're not retaining 25%. If you bring up the slide showing all the cumulative transfers and retention, what is that 3rd bullet? <ul style="list-style-type: none"> ▪ From the slide deck: Retained for FY24 budget appropriations and safety margin: \$12,063,478 ○ Dembele: This is the safety margin plus the budget appropriations. Again, the 25% might just be a combination of two things instead of the whole revenue. ○ Veghte: In short, we collected \$1.3 billion this year and the administrative expenses were a tiny fraction of that, probably around 5-8%, but it's not 25%. I just want to make sure that's not something people leave this meeting thinking. ○ NOTE: This is a new, first in the nation program, hence the precise amount of contingency reserve needed is uncertain and will be fine-tuned at the November Cross Agency Accounting Workgroup meeting. The Employment Security Department currently retains a three-month reserve for contingency, amounting to 25% of annual WA Cares appropriations for the three agencies to administer the program (i.e. 25% of total fiscal year administrative funding for agency operating expenses, not 25% of total revenue collected). • Kuschel: Since it is a large sum of money, the \$12 million, I'd like to know what kind of account it's being held in and what the return on that account is because over time this could really affect the performance for the stakeholders. <ul style="list-style-type: none"> ○ Dembele: We don't really get any return on this money besides the fact we may have the account with OST and then we get interest on that amount. However we're not setting this money aside for investment. It's just a safety margin for us. ○ Veghte: In the Cross-Agency Accounting Workgroup there was great care given to make sure money doesn't sit idle. At the end of each quarter, only enough is retained for administrative expenses. The rest is sent to SIB. The amount that remains has a cushion, as Ibrahim was saying, but as much as possible is sent as quickly as possible at the end of each quarter. ○ Doane: I have no idea what the percentages are because I've never seen those numbers and I don't have access to ESD's calculations, but I do know there was a lot of thought and effort that went into determining what was appropriate to withhold with the appropriations along with a very small cushion. It is a very small amount, and we do the transfers twice. We do a larger portion 3 weeks after the close of the quarter and then as residual employers make their payments we do an additional one, so it's not sitting for the next quarter. We are trying to be mindful about maximizing the investment.
Public Comment	Public comment can be viewed in the table below.
Review Agenda for November 14 th meeting	<ul style="list-style-type: none"> • Approve 7/31/2024 Investment Strategy Subcommittee meeting minutes • Receive Finance Update • Receive Investment Performance Update • Update from Cross-Agency Accounting Workgroup • Elect a new Chair for 2025
Wrap-up <ul style="list-style-type: none"> • Action Item Review • Adjourn 	Action item recap captured in the table below. Meeting adjourned at 2:09 pm

#	Action Items	Lead	Due Date
1	ESD to send a breakdown of what they keep for administrative expenses.	ESD	11/14/2024

Name	Public Comment
Aruna Bhuta	<p>Thank you, Commission and Workgroup members, for all your hard work. WA Cares is a valuable program. I know there was an issue brought to the voters' attention if this money can be invested in a different way which will bring more return on investment, and it didn't pass when it was introduced maybe 3 or 4 years ago. Are there any plans to reintroduce that again, or can we not do it again? Thank you.</p> <p>Everson: The Commission doesn't generally answer questions during public comment, they simply receive information. But it sounds like you feel it might be important to revisit the idea of investing in other instruments besides fixed income. Is that correct?</p> <p>Bhuta: Yes, if it is possible. Thank you.</p>