

Alternative Solutions

Designing a Public LTSS Finance Option for Washington State

Monday March 26, 2017

3:45 – 5:00 pm



17th Annual Intercompany Long Term Care Insurance Conference

Session Producer and Speakers



- Eileen J. Tell, ET Consulting
- Chris Giese, FSA, MAAA, Principal and Consulting Actuary, Milliman
- John Wilkin, FSA, MAAA, Senior Actuary, Actuarial Research Corporation
- Pete Subkoviak, SEIU 775

Agenda



- Project Overview
- Principles of Social Insurance
- Modeling Methodology & Results
- Stakeholder Perspective & Next Steps

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PROJECT OVERVIEW

Chris Giese, FSA, MAAA,
Principal and Consulting Actuary, Milliman



17th Annual Intercompany Long Term Care Insurance Conference

Project Overview



- Feasibility study regarding public/private options to help Washingtonians prepare to meet their LTSS needs
- Project performed under direction of Washington State Department of Social and Health Services (DSHS)
 - Aging and Long-Term Support Administration and Home and Community Services Division

Project Overview



- Study funding: WA State + stakeholders
 - American Association of Retired Persons
 - Service Employees International Union
 - Washington Health Care Association
 - LeadingAge
 - Adult Family Home Council Project
- Milliman (with partners) engaged by DSHS
 - Actuarial Research Corporation
 - ET Consulting
 - LifePlans



- Scope included two main components
 - 1) Gather stakeholder feedback through series of interviews/discussions to determine modeling specifications
 - 2) Quantitative and qualitative actuarial analyses of two high-level options specified per Washington Legislature in Senate Bill 6052

Option 1



Option 1

A public long-term care insurance benefit for workers, funded through a payroll deduction that would provide a time-limited long-term care insurance benefit.



Option 2

A public-private reinsurance or risk sharing model with the purpose of providing a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic long-term services and supports losses in order to provide additional insurance capacity for the state.



- Stakeholder perspective viewpoints:
 - WA DSHS
 - WA insurance department
 - Providers
 - Unions
 - Advocacy groups/associations for elderly
 - Private market carriers
- Modeling Specifications
 - Tailored using stakeholder feedback and review

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Option 1: Discussion and Results

John Wilkin, FSA, MAAA,
Senior Actuary,
Actuarial Research Corporation



Nursing Care Facilities and CCRCs – 2015



- From National Health Accounts (CMS)

Channel of Payment	Expenditures (millions)	Percent of Total	Percent of Subtotal (excluding Medicare)
Total	\$140,807	100%	100%
Out-of-Pocket	\$40,076	28%	39%
Private Insurance	\$13,416	10%	13%
Medicare	\$37,629	27%	----
Medicaid	\$49,686	35%	48%

Population in Poverty



- 2015 Bureau of Census
 - 43.1 million = 13.5% (all ages)
 - 4.2 million = 8.8% (65+)



- Base plan is not a recommended plan, just a starting point to view options
 - Vesting: 3 out of last 6 years or 10 years
 - Divesting period of 5 years
 - HIPAA benefit trigger
 - 90 calendar day elimination period
 - DBM: \$100 in 2023 increased by 3%/year
 - \$36,500 indexed (1- year) lifetime maximum
 - No premiums, no low-income subsidy

Population Projection



Base Plan Projected Population of Washington				
Year	Population	20-64	65+	20-64 / 65+
2015	7,061,410	4,251,480	1,027,664	4.1
2020	7,365,815	4,283,766	1,243,337	3.4
2030	7,755,861	4,328,548	1,517,333	2.9
2040	8,029,666	4,500,739	1,612,027	2.8
2050	8,282,319	4,601,612	1,717,417	2.7
2060	8,548,086	4,646,349	1,877,893	2.5
2070	8,804,662	4,782,250	1,968,984	2.4
2080	9,049,364	4,897,570	2,055,115	2.4
2090	9,298,766	4,973,290	2,178,142	2.3

Working Age Population



Base Plan Coverage for Contributing Population, Ages 20-64				
Year	Population	Workers	Vested	% Vested
2023	4,542,332	3,608,536	2,732,909	60%
2025	4,548,715	3,618,926	3,088,625	68%
2030	4,574,928	3,651,770	3,116,549	68%
2040	4,754,347	3,770,534	3,306,945	70%
2050	4,876,354	3,871,443	3,623,735	74%
2060	4,929,216	3,935,951	3,747,681	76%
2070	5,064,958	4,028,992	3,860,945	76%
2080	5,197,128	4,127,811	3,953,867	76%
2090	5,275,941	4,209,370	4,003,101	76%

Aged Population



Table 2
Option 1 Base Plan
Coverage of Aged Population, Ages 65+

Year	Population	Vested	% Vested
2023	1,312,163	40,615	3%
2025	1,378,455	132,695	10%
2030	1,504,087	319,222	21%
2040	1,608,044	649,715	40%
2050	1,705,564	1,018,663	60%
2060	1,864,638	1,360,655	73%
2070	1,960,645	1,599,782	82%
2080	2,041,237	1,757,855	86%
2090	2,167,479	1,901,240	88%

Administrative Expenses



Trust Fund	Administrative Expenses (millions)	Benefit Payments (millions)	Administrative Expenses as a % of Benefit Payments
HI (Part A)	\$5,463	\$273,423	2.0%
SMI (Part B)	\$3,145	\$275,811	1.1%
OASI	\$3,376	\$742,908	0.5%
DI	\$2,792	\$143,370	1.9%
WA – LTC (2030)	\$21	\$304	7%

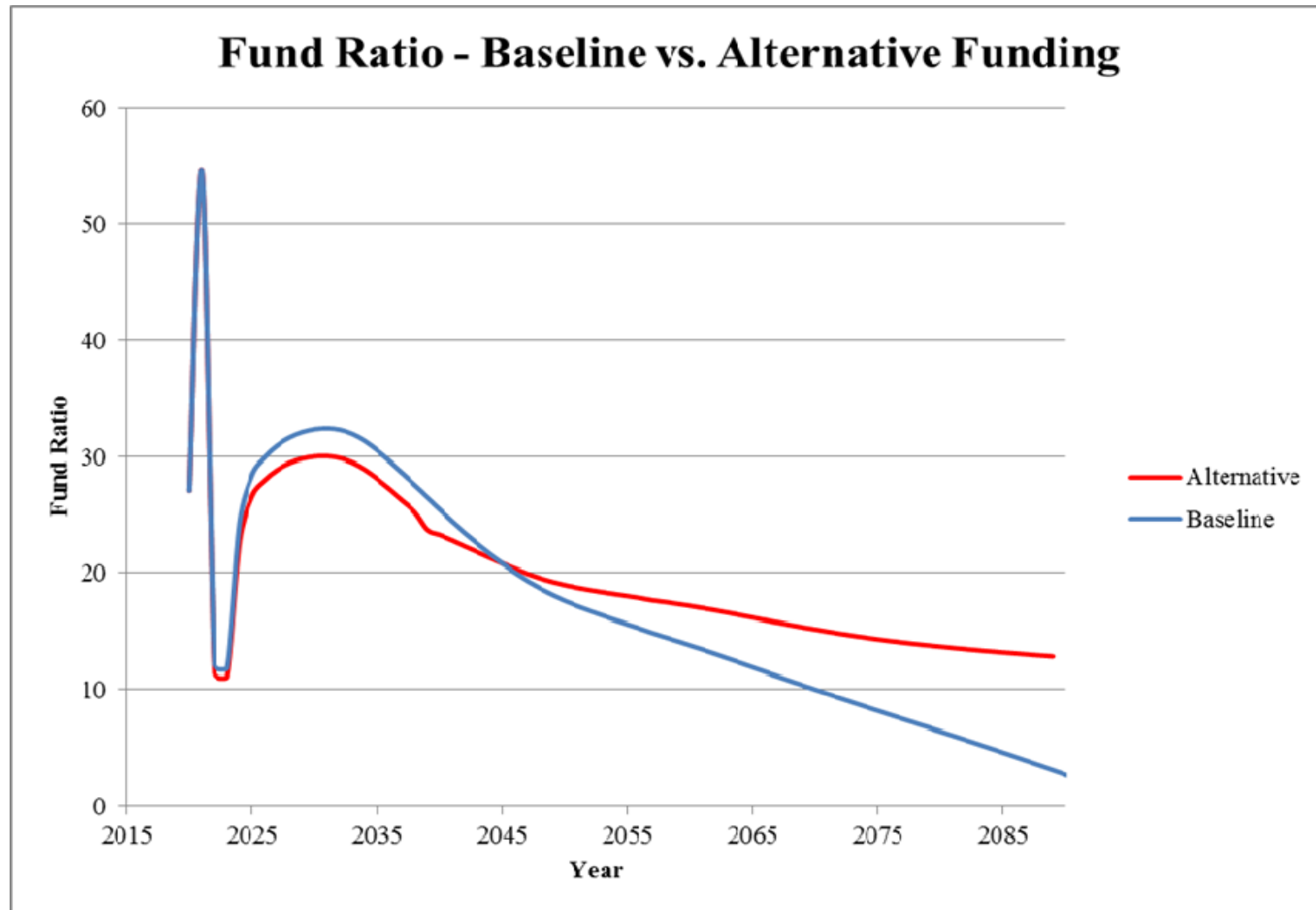
Modeling Results



Table 5
Option 1 Base Plan
Estimated LTSS Beneficiaries and Expenditures

Year	Beneficiaries	Expenditures (\$Millions)	Per Beneficiary Expenditures	Average Daily Benefit
2023	15,623	\$211	\$13,507	\$100
2025	21,274	\$164	\$7,725	\$106
2030	29,493	\$325	\$11,005	\$123
2040	84,347	\$1,184	\$14,032	\$165
2050	180,096	\$3,311	\$18,387	\$222
2060	259,773	\$6,372	\$24,530	\$299
2070	340,505	\$11,137	\$32,708	\$401
2080	404,590	\$17,672	\$43,680	\$539
2090	445,970	\$26,110	\$58,546	\$725

Fund Ratio – Balance / 1-year Outgo



Variations That Reduce Tax



Scenario	Payroll Tax Rate	Change from Baseline
Base Plan	0.54%	-
Variation 1 - 10-yr Vesting	0.46%	-0.08%
Variation 2 - \$25 Premium	0.40%	-0.13%
Variation 3 - \$50 Premium	0.32%	-0.21%
Variation 4 - 40-yr-old Age Requirement	0.52%	-0.01%
Variation 5 - 65-yr-old Age Requirement	0.48%	-0.05%
Variation 6 - \$75 DBA	0.40%	-0.14%
Variation 7 – CPI DBA Index	0.45%	-0.08%
Variation 8 - 180-day Elimination Period	0.48%	-0.06%
Variation 9 - 138% FPL – No Taxes, No Benefits	0.47%	-0.07%
Variation 10 - 200% FPL – No Taxes, No Benefits	0.43%	-0.10%
Variation 11 - 4% Admin Costs	0.52%	-0.02%
Variation 12 - 0-yr Divesting Period	0.52%	-0.02%
Variation 13 - 3-yr Divesting Period	0.52%	-0.01%
Variation 14 - 3+ ADL Benefit Trigger	0.44%	-0.09%
Variation 15 – Leanest Parameters	-0.01%	-0.55%

Variations That Increase Tax



Scenario	Payroll Tax Rate	Change from Baseline
Base Plan	0.54%	-
Variation 1 - \$150 DBA	0.80%	0.26%
Variation 2 - Wage DBA Index	0.75%	0.21%
Variation 3 - 30-day Elimination Period	0.58%	0.04%
Variation 4 - 2-yr Lifetime Max	0.85%	0.32%
Variation 5 - 3-yr Lifetime Max	1.06%	0.52%
Variation 6 - 138% FPL – No Taxes, Benefits	0.55%	0.01%
Variation 7 - 200% FPL – No Taxes, Benefits	0.57%	0.03%
Variation 8 - 10% Admin Costs	0.55%	0.02%
Variation 9 – 10-yr Divesting Period	0.55%	0.01%
Variation 10 - No Divesting	0.79%	0.25%
Variation 11 - Richest Parameters	3.35%	2.79 %

Medicaid Savings



Year	LTC Program Outgo	Medicaid Savings	Savings as a % of Outgo
2025	\$164	\$14	9%
2030	\$325	\$24	7%
2040	\$1,184	\$107	9%
2050	\$3,311	\$402	12%

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Option 2: Reinsurance Results and Discussion

Chris Giese, FSA, MAAA,
Principal and Consulting Actuary,
Milliman





- Per stakeholder feedback, focused on two reinsurance structures building off existing stand-alone private LTC market:

Reinsurance Structure 1

Reinsurance pool pays LTSS benefits after a specified number of years for known claims

Reinsurance Structure 2

Reinsurance pool pays for the present value of lifetime LTSS benefits per cohort grouping above a certain dollar amount



- Main conclusion for both structures:

Designs requested for analysis have limited potential to increase the prevalence of private LTC insurance in the State of WA

- Driving influences
 - Reinsurance pool cost would ultimately be passed back to the individual consumer
 - Without significant premium reduction, participation levels in private LTC insurance market would remain similar to current levels

Option 2 – Reinsurance Structure 1



- Insight to potential savings

LTC Expenditures by Year Paid Over Remaining Lifetime Individual Currently Age 65 With Some LTC Needs							
	< 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	5-6 Years	> 6 Years
Female	23%	18%	14%	11%	8%	6%	20%
Male	31%	21%	14%	10%	7%	5%	12%
Composite	27%	19%	14%	10%	8%	6%	16%

- Claim cost reduction would decrease private carrier financial obligation
- However, impact limited by:
 - Reinsurance pool needs premium to cover costs -> passed back to consumer
 - Private market already moved away from longer benefit periods



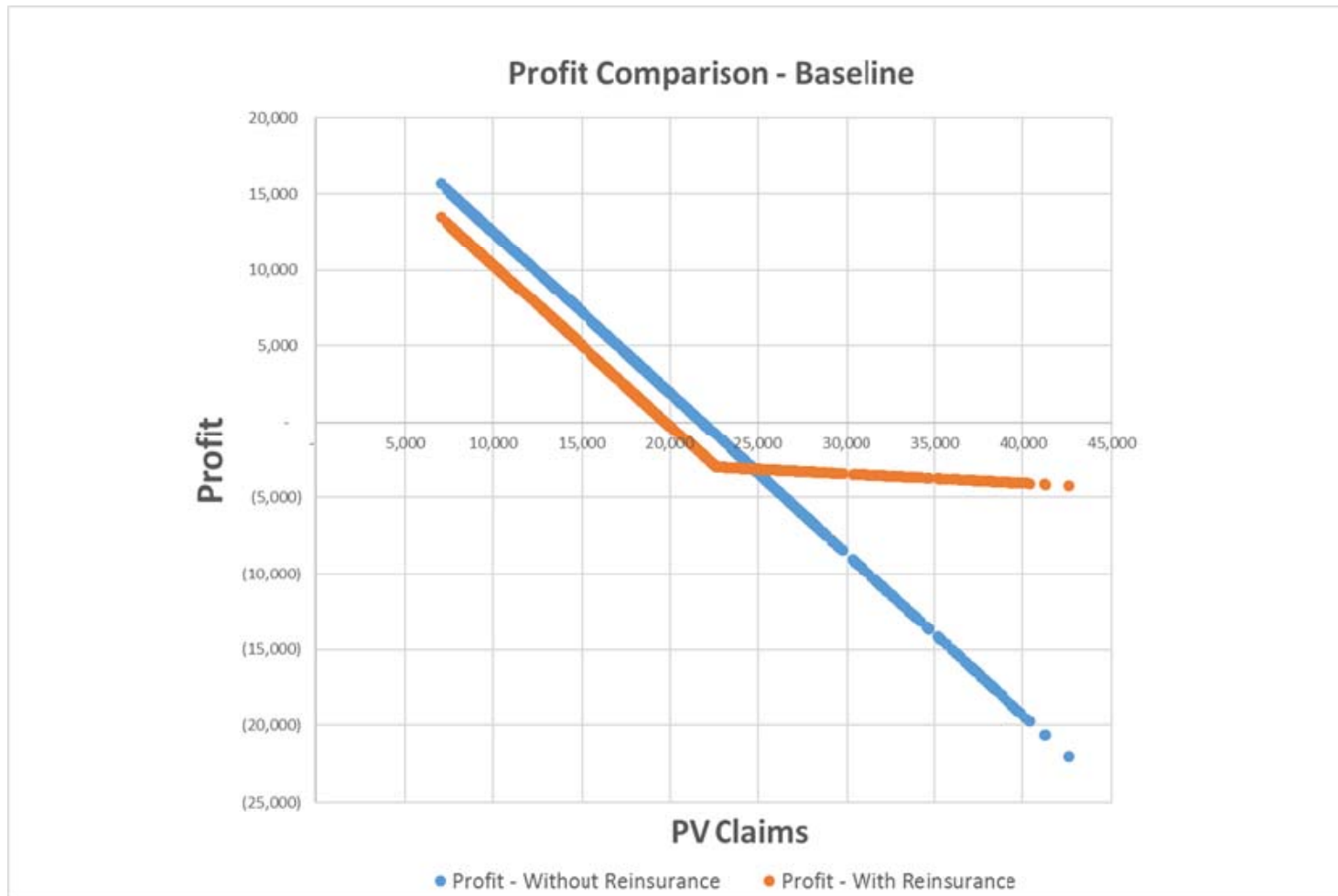
Example Structure (“Base” Plan)

- Reinsurance pool pays for the present value of lifetime LTSS benefits per cohort grouping above a 120% share of total expected costs
- Reinsurance pool will charge 105% of expected reinsurance claims to cover administration and profit costs

Option 2 – Reinsurance Structure 2



- Sample results = 1,000 claim scenarios



OPTION 2 – REINSURANCE STRUCTURE 2



Base Plan Results of Stochastic Testing Present Value of Lifetime Profits per Individual (\$)						
	Direct Carrier			Reinsurer		
	Min	Average	Max	Min	Average	Max
Current Marketplace	(22,051)	3,140	15,662	N/A	N/A	N/A
Base Plan	(4,232)	3,036	13,483	(17,819)	104	2,178

Note: “Min” and “Max” represent results for a single scenario; “Average” represents the average of results across all 1,000 scenarios modeled. Profits for reinsurer assumed to also cover any administration costs.

- Downside risk significantly decreases
- Upside risk has also decreased
- Direct carriers: expected to have less profit?
 - Due to charge for the reinsurance protection
- Reinsurance charge likely borne by consumer

Option 2 - Considerations



- Primary concern from private LTC carrier perspective from interviews
 - Ability to take action if bad experience
- State as reinsurance backstop could help, but comes with challenges such as:
 - Potential conflict of interest
 - Likely to have little impact on rates
 - Overall LTC risk will not change
 - Uncertainty for future results still exists
 - Subsidies may be necessary
 - State may have to take risk

Option 2 - Considerations



- Implementation challenges examples:
 - Timing of reinsurance pool reimbursement
 - Adjustments for misses on other assumptions such as mortality and lapse rates
 - Standardizing risks accepted and covered by reinsurance pool
 - Load needed for expenses, profit, margin
 - Discount rate for present value calculations
 - Choice of “standard” assumptions for determining reinsurance attachment points
 - Portability of coverage

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Stakeholder Perspectives

Pete Subkoviak, SEIU 775



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Questions & Discussion



- How does the new political climate nationally impact Washington's choices and challenges?
- What is unique about Washington that influences these findings? What different challenges or opportunities do other states have?
- What has been the response from LTC insurers?
- And more questions from the audience....



Questions
are
guaranteed in
life;
Answers
aren't.

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