Long-Term Services and Supports Feasibility Study

Report Results Walk-Through

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FRIDAY, OCTOBER 30, 2020

Milliman

Project Overview

- California State Department of Health Care Services (DHCS) commissioned Milliman to develop a long-term services and supports (LTSS) feasibility study that includes:
  - Projected cost estimates of alternative financing and service options
  - Possible impacts to existing state Medicaid program

Link to final report

https://www.dhcs.ca.gov/formsandpubs/Documents/Legislative%20Reports/Long-Term-Services-and-Supports-Feasibility-Study-Final-Report.pdf

Project Overview

The scope of our engagement included four main components:

1. Gather stakeholder feedback
2. Actuarial modeling of “core” LTSS program designs
3. Actuarial modeling of additional design alternatives
4. Estimation of savings to the state-funded programs and services

Opening Modeling Comments

- Program structures and alternatives analyzed were based on stakeholder feedback and input from DHCS
  - Plans modeled are not intended to be recommended plans
  - Plans modeled do not represent an exhaustive list of options for LTSS financing
- Report serves as first step to illustrate a wide variety of options that will help guide further discussions regarding the LTSS program parameters
- The estimates produced in our analysis are part of a feasibility study only and not intended for setting the program rates
- Actual expenses and required revenue will inevitably vary from the estimates
- Given the substantial uncertainty regarding the impact of COVID-19 on claims costs, it was not possible to predict whether the pandemic will increase or decrease LTSS costs in the future

Proposed Program Description

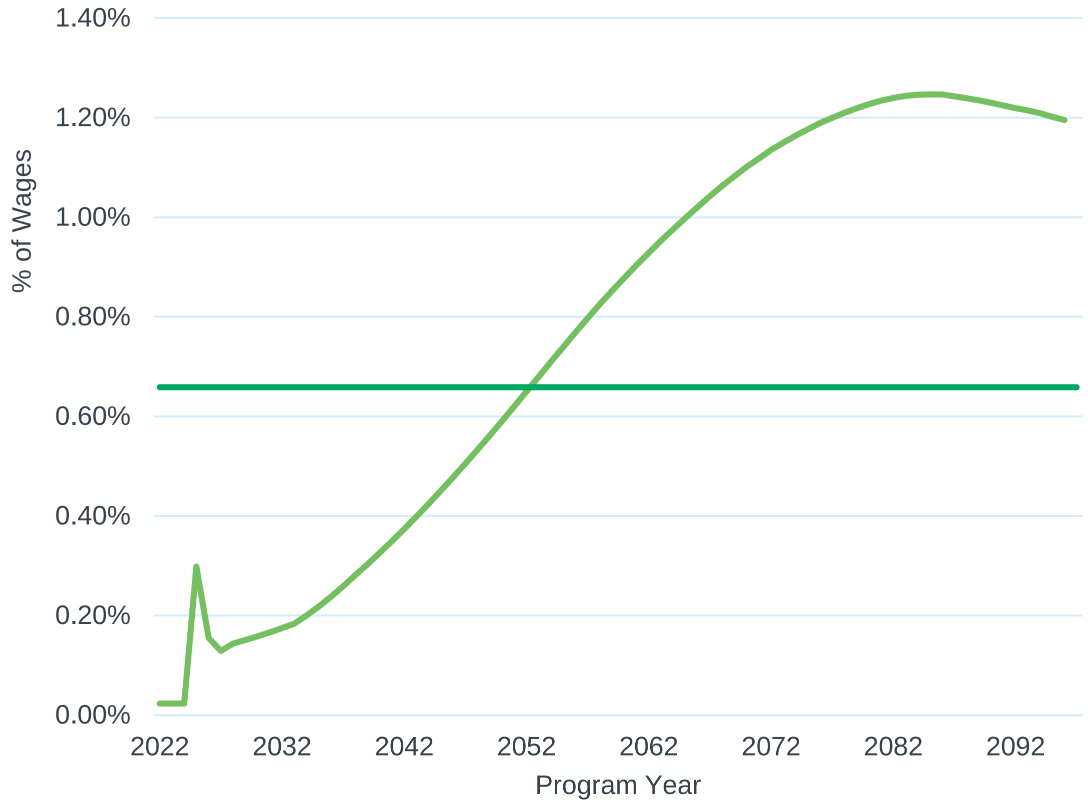
“Core Plan” Structure

- Public long-term care insurance benefit for workers, no spousal coverage
- Provides a time-limited long term care insurance benefit
- Participation is mandatory
- Financed by a flat percentage state tax on all wages and self-employed reported wages
- Funding is pay-as-you-go for a social insurance program, although the program does include some measure of prefunding
- To receive benefits, individuals must pay the tax for a specified number of years and meet benefit eligibility definition

Tax Rate Calculation Overview

- Use an initial 75-year window to estimate needed payroll tax
- Required level tax rate
  - Present value revenue = present value benefits + expenses
  - Also test that fund amount at the end of the year covers outgo in next year
- Modeling does not represent a recommended approach for revenue source or funding structure

<u>Core Plan 1 Example</u>
Level 75-Year Rate vs.
Expenditures as % of Wages



Core Plan Parameters

Program Specification	Core Plan 1	Core Plan 2	Core Plan 3
Covered Services	Comprehensive, private market services	No restrictions due to cash benefit structure	Comprehensive, private market services
Minimum Age for Benefits	18; Disabled after 18	18; Disabled after 18	18; Disabled after 18
Benefit Eligibility	Private market requirements	Private market requirements	Private market requirements
Daily Benefit Amount (in 2025)	$150	$150	$100
Lifetime Maximum Benefit (in 2025)	$54,750	$54,750	$36,500
Benefit Index	3% (annual compound inflation)	3% (annual compound inflation)	3% (annual compound inflation)
Benefit Structure	Reimbursement	Cash	Reimbursement
Elimination Period (Calendar Days)	90 days	90 days	30 days
Vesting Requirements (1 credit / year if 500+ hours)	Full benefits if 3 of last 6 years, or 10 years total	Full benefits if 10 years total; Partial benefits if <10 years	Full benefits if 3 of last 6 years, or 10 years total
Portability / Divesting Period	Grade to 0% after 5 years	Grade to 0% after 5 years	Grade to 0% after 5 years
Program Revenue Source	Payroll tax on all Medicare covered wages	Payroll tax on all Medicare covered wages	Payroll tax on all Medicare covered wages
Payroll Tax Rate (first 75 years)	**0.66%**	**0.88%**	**0.46%**

Assumption Sensitivities

Using Core Plan 1 as Base (tax rate = 0.66%)

Sensitivity results (from changing a singular assumption) range from 0.43% to 0.96%. Multiple assumptions changes may not have an additive impact.

Assumption	Baseline	High	Low	Payroll Tax Rate (High)	Payroll Tax Rate (Low)
Incidence	**Varies**	**20%**	**-20%**	**0.71%**	**0.59%**
Benefit Payments	**Varies**	**20%**	**-20%**	**0.79%**	**0.52%**
Mortality	**Varies**	**-10%**	**10%**	**0.68%**	**0.63%**
Annual Mortality Improvement	**0.78%**	**1.16%**	**0.42%**	**0.71%**	**0.61%**
Fertility Rate (birth rate)	**11.5**	**8.7**	**14.9**	**0.70%**	**0.61%**
Net Annual Migration Counts	**24,396**	**18,473**	**30,932**	**0.66%**	**0.66%**
Vesting	**Varies**	**+10% Capped at +5% Ultimate**	**-10% Capped at -5% Ultimate**	**0.70%**	**0.60%**
Interest Rate (ultimate annual rate)	**4.70%**	**3.60%**	**5.80%**	**0.75%**	**0.56%**
Wage Growth (ultimate annual rate)	**3.55%**	**2.34%**	**4.76%**	**0.96%**	**0.43%**
Administrative Cost	**7%**	**10%**	**4%**	**0.68%**	**0.64%**

Medicaid Program LTSS Background

- Medicaid is the primary payer of LTSS in the United States. We estimate California's Medicaid program will spend approximately $25-30 billion on LTSS in 2017, jointly funded by both the state and federal government.

Estimated 2017 State and Federal LTSS Expenditures by Category	
Category	Total
Institutional Care (Nursing Home and ICF/DD)	25%
Physically Disabled HCBS	50%
Developmental Services	25%
Total LTSS	**$25 to $30 billion**

- Medicaid is the payer of last resort. Therefore, the new proposed LTSS public program would likely pay before Medicaid.
- If Medicaid expenditures were reduced because of a new public LTSS program, federal financial participation would also be reduced.
- Any federal government savings attributable to the new LTSS public program may be captured through a Medicaid Waiver. Looking into Medicaid Waivers was beyond the scope of this initial analysis.

Medicaid Program Impact

- The new public program Medicaid fiscal impact is approximately 5% of the Medicaid LTSS program in 2035, growing to 10% to 20% of the Medicaid LTSS program by 2090 for Core Plan 1
  - Vesting requirements have a significant impact on the percentage of Medicaid enrollees accessing the new public benefit
  - Benefit eligibility for the new public program is more stringent than the Medicaid program requirements
  - New public program requires individuals to be over the age of 18 and become disabled after the age of 18 in order to be eligible for benefits

	Recipients Starting LTSS Program Benefits		Medicaid Fiscal Impact (State and Federal in Millions)	
Year	**Total Recipients**	**Medicaid Recipients**	**Untrended (2020 $)**	**Trended at 3%**
2035	76,000	47,000	($ 2,050.0)	($ 3,200.0)
2050	215,000	130,000	(5,620.0)	(13,630.0)
2070	389,000	231,000	(10,000.0)	(43,830.0)
2090	428,000	253,000	(10,980.0)	(86,940.0)

- Carving out the under 138% FPL population from benefits reduces the Medicaid impact, but a material impact remains from individuals who spend down assets on LTSS services and gain Medicaid eligibility
  - The results of this scenario vary depending on whether individuals who vest during working lifetime are excluded from benefits if they are under 138% FPL when they need LTSS services

Plan Package Alternatives

Plan Package Alternative	Key Differences from Core Plan 1	Payroll Tax Rate	Change from Core Plan 1
Core Plan 1		**0.66%**	
Payroll Tax Alternative	Payroll tax assessed on 40+; 50+ eligible for benefits	**0.85%**	**0.19%**
Lean Alternative	Leaner benefit (ex: $100 DB) & vesting/divesting	**0.34%**	**-0.32%**
Rich Alternative	Richer benefit (ex: higher DB & lifetime BP) & divesting	**20.46%**	**19.80%**
Catastrophic Alternative 1	Back-end coverage (2-year EP)	**3.32%**	**2.66%**
Catastrophic Alternative 2	Back-end coverage (3-year EP)	**2.75%**	**2.09%**
Catastrophic Alternative 3	Back-end coverage (4-year EP)	**2.25%**	**1.59%**
Catastrophic Alternative 4	Back-end coverage (5-year EP)	**1.83%**	**1.17%**

Modeling Alternatives

Program Feature	Sensitivities
Benefit Structure	Cash, Reimbursement with partial cash
Covered Services	Home Health Only, No restrictions (for cash benefit structure)
Minimum Age for Benefits	0, 18, 40, 50, 65 (with variations to limit to disability onset after age 18)
Benefit Eligibility	IHSS requirement Private market requirements with 3 of 6 ADLs
Daily Benefit Amount	$70, $100, $200, $300, $400
Daily Benefit Index	4%, Wages (3.5%), CPI (2.5%)
Lifetime Maximum Benefit	2 years, 3 years, 4 years, 5 years, Lifetime
Elimination Period (Calendar Days)	0 day, 30 days, 60 days, 180 days
Vesting Requirements (1 credit / year if 500+ hours)	No vesting; 10 years with partial vesting; 1 of last 3 years, or 10 years total; 5 years total; 10 years total
Portability / Divesting Period	No portability (in-state residency requirement), 2-year divesting period, 5-year divesting period, 10-year divesting period, Grade to 25% after 5 years, Grade to 50% after 5 years, Fully portable (no residency requirement)
Program Revenue Source	Payroll tax above SS threshold Payroll tax with monthly premium for 65+: $25, $50 Payroll tax on all wages for individuals 40+
FPL Carve-outs	No payroll taxes on individuals below 138%, 200%, and 500% FPL No payroll taxes nor benefits on individuals below 138%, 200%, and 500% FPL
Additional Features	Opt out option for individuals with CalPERS or private LTC insurance; Opt in for self-employed population; Buy into program at 65: no underwriting, limited underwriting, full underwriting; Monthly benefit; Tax and benefit per household

Modeling Alternatives

Benefit Structure Alternatives

- Core Plan 1 assumes a reimbursement method is used, where individuals are reimbursed for actual expenses incurred for approved services
- The two modeled alternatives reflect the tax rate impact of more flexible benefit structures

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Cash Alternative	0.89%	0.23%
Reimbursement with partial cash	0.69%	0.03%

Modeling Alternatives

Covered Services Alternative

- Core Plan 1 covers a comprehensive set of benefits, which includes both facility and home care
- Under alternative, coverage would be limited only to care services received in a person's home
  - We assumed some individuals who would have received care in other settings under the Base Plan would "substitute" services and receive care in the home setting, given services in other settings would not be covered under the program

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Home health coverage only	0.40%	-0.26%

Modeling Alternatives

Minimum Age for Benefits Alternatives

- For Core Plan 1, individuals must be age 18 or older before becoming benefit eligible and receiving benefits
- We tested alternatives to:
  - The minimum age requirement for individuals to receive benefits.
  - The minimum age for disability.
- For both types of alternatives, we assume vesting requirements must still be satisfied to receive benefits

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
0 minimum age for benefits	0.67%	0.01%
40 minimum age for benefits, disabled after age 0	0.65%	<0.01%
65 minimum age for benefits, disabled after age 0	0.59%	-0.07%
40 minimum age for benefits, disabled after age 18	0.65%	-0.01%
50 minimum age for benefits, disabled after age 18	0.64%	-0.02%
65 minimum age for benefits, disabled after age 18	0.59%	-0.07%

Modeling Alternatives

Benefit Eligibility Alternatives

- Core Plan 1 assumes enrollees must meet benefit eligibility criteria consistent with standard private market LTC insurance policies, which includes one of the following:
  - Requiring assistance for 2+ ADLs for a period expected to last 90+ days
  - Severe cognitive impairment necessitating substantial supervision
- We tested alternatives related to benefit eligibility:
  - IHSS is a less restrictive "trigger"
    - Requires Medi-Cal-eligible individuals to undergo a social worker assessment, which will authorize them to receive help with at least 1 of 8 eligible services
  - 3+ ADL is more restrictive "trigger"

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
IHSS benefit eligibility	1.03%	0.37%
3+ ADL benefit trigger	0.64%	-0.02%

Modeling Alternatives

Daily Benefit Amount (DBA) Alternatives

- Core Plan 1 assumes $150 daily benefit amount
- A higher or lower daily benefit amount will directly impact the lifetime maximum benefit amount (i.e., pool of money)

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1; $54,750 pool	0.66%	-
$70 DBA; $25,550 pool	0.31%	-0.35%
$100 DBA; $36,500 pool	0.44%	-0.22%
$200 DBA; $73,000 pool	0.88%	0.22%
$300 DBA; $109,500 pool	1.22%	0.57%
$400 DBA; $146,000 pool	1.59%	0.94%

Modeling Alternatives

Daily Benefit Index Alternatives

- Daily benefit index refers to the rate at which benefits will be increased each year for the entirety of the program
- Core Plan 1 assumes 3.0% inflation rate

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
4% DBA inflation	1.01%	0.35%
DBA inflation tied to wage growth (3.55%)	0.81%	0.15%
DBA inflation tied to CPI (2.5%)	0.54%	-0.12%

Modeling Alternatives

Lifetime Maximum Benefit Alternatives

- The lifetime maximum is the length of time that benefits are paid once the beneficiary becomes eligible to receive benefits
- Core Plan 1 assumes a 1-year benefit period
  - $54,750 pool of money = $150 DBA x 365 days
- For alternatives we assume the daily benefit amount remains constant at $150

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
2-year benefit period	1.19%	0.53%
3-year benefit period	1.63%	0.97%
4-year benefit period	1.99%	1.33%
5-year benefit period	2.28%	1.62%
Lifetime benefit period	3.52%	2.86%

Modeling Alternatives

Elimination Period Alternatives

- The elimination period is the number of days a beneficiary must wait after becoming benefit eligible before receiving benefits
  - Coordination of benefits with other private and public programs (such as Medicaid) would need to be further defined while implementing this program
- Core Plan 1 assumes a 90-day elimination period

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
0-day elimination period	0.72%	0.06%
30-day elimination period	0.69%	0.03%
60-day elimination period	0.68%	0.02%
180-day elimination period	0.63%	-0.03%

Modeling Alternatives

Vesting Requirement Alternatives

- No benefits will be paid until a worker has paid taxes for a specified number of years
- Under Core Plan 1, to become vested an individual work 500+ hours:
  - 3 of the last 6 program years, or
  - 10 program years total
- Vesting impacts eligible individuals, as well as program's ability to pre-fund

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
No vesting requirement	3.72% / 1.17%[1]	N/A
Worked 10 years total with partial vesting credits	0.72%	0.06%
Worked 1 of last 3 years, or 10 years total	0.68%	0.02%
Worked 5 years total	0.71%	0.05%
Worked 10 years total	0.62%	-0.04%

[1] *For the no vesting scenario we calculate separate year one (3.7%) and ultimate (1.2%) tax rates.*

Modeling Alternatives

Portability / Divesting Alternatives

- The portability / divesting alternatives consider how individuals who leave the state of California will retain vesting in the LTSS benefit
- Under Core Plan 1, the maximum benefit grades to 0% over 5 years

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
No portability	0.63%	-0.02%
2-year divesting period	0.65%	-0.01%
5-year divesting period	0.67%	0.02%
10-year divesting period	0.71%	0.06%
Grade benefits to 25% after 5 years out of state	0.74%	0.09%
Grade benefits to 50% after 5 years out of state	0.83%	0.17%
Fully portable	1.00%	0.35%

Modeling Alternatives

Program Revenue Source Alternatives

- Core Plan 1 assumes a percentage tax rate on all wages, with no other premiums or assessments
- Alternatives tested:
  - Payroll tax above Social Security threshold (in 2020 the SS threshold is $137,700)
  - $25 or $50 premium for individuals age 65+ (collected from disabled & non-disabled vested individuals)
  - Payroll tax on all wages for individuals age 40+ (those under 40 do not pay tax & will not be eligible for benefits)

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Payroll tax above Social Security threshold	3.77%	3.11%
$25 premium for individuals age 65+	0.61%	-0.05%
$50 premium for individuals age 65+	0.57%	-0.09%
Payroll tax on all wages for individuals age 40+	0.86%	0.20%

Modeling Alternatives

Population Exclusion & Inclusion Alternatives

- The population exclusion and inclusion alternatives would allow certain groups to opt out of or into the program
- Under Core Plan 1, participation is mandatory for all workers (including those with private LTC coverage & self-employed individuals)

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Opt-Out for CalPERS / private insurance members	0.66%	<0.01%
Opt-In for self-employed population Alternative 1 – 100% of revenue carved out	0.74%	0.08%
Opt-In for self-employed population Alternative 2 – 50% of revenue carved out	0.70%	0.04%

Modeling Alternatives

Federal Poverty Level (FPL) Population Exclusion Alternatives

- Assess the impact of carving out wages and / or benefits for certain low-income populations
  - Income is specified for alternatives as % of FPL
- Two types of alternatives:
  - No taxes or benefits for individuals below certain % of FPL
  - No taxes for individuals below certain % of FPL (can receive benefits, but still must meet work requirements)

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
No taxes or benefits for individuals below 138% FPL	0.53%	-0.13%
No taxes for individuals below 138% FPL	0.68%	0.02%
No taxes or benefits for individuals below 200% FPL	0.47%	-0.19%
No taxes for individuals below 200% FPL	0.70%	0.04%
No taxes or benefits for individuals below 500% FPL	0.29%	-0.37%
No taxes for individuals below 500% FPL	0.95%	0.29%

Modeling Alternatives

Per Household Benefit Alternative

- Alternative reflects full vesting for each individual in a household once any one individual in a household satisfies the vesting requirements
- Each individual still retains his / her benefits (i.e., there is no shared pool of benefits among household)
- Assumed household includes an individual's spouse and adult dependent children between the ages of 18 and 26

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Tax / benefit per household	0.87%	0.21%

Modeling Alternatives

Benefit Payment Reimbursement Alternative

- This alternative examines the tax rate impact of providing a monthly benefit amount rather than a daily benefit amount
- Monthly reimbursement allows a beneficiary to spend more on a daily basis, since the benefit is capped each month, rather than each day
  - Impact is small since utilization is already assumed to be high under daily reimbursement

Alternative	75-Year Payroll Tax	Change from Core Plan 1
Core Plan 1	0.66%	-
Monthly benefit	0.66%	<0.01%

Modeling Alternatives

Buy-In Program Alternatives – Background

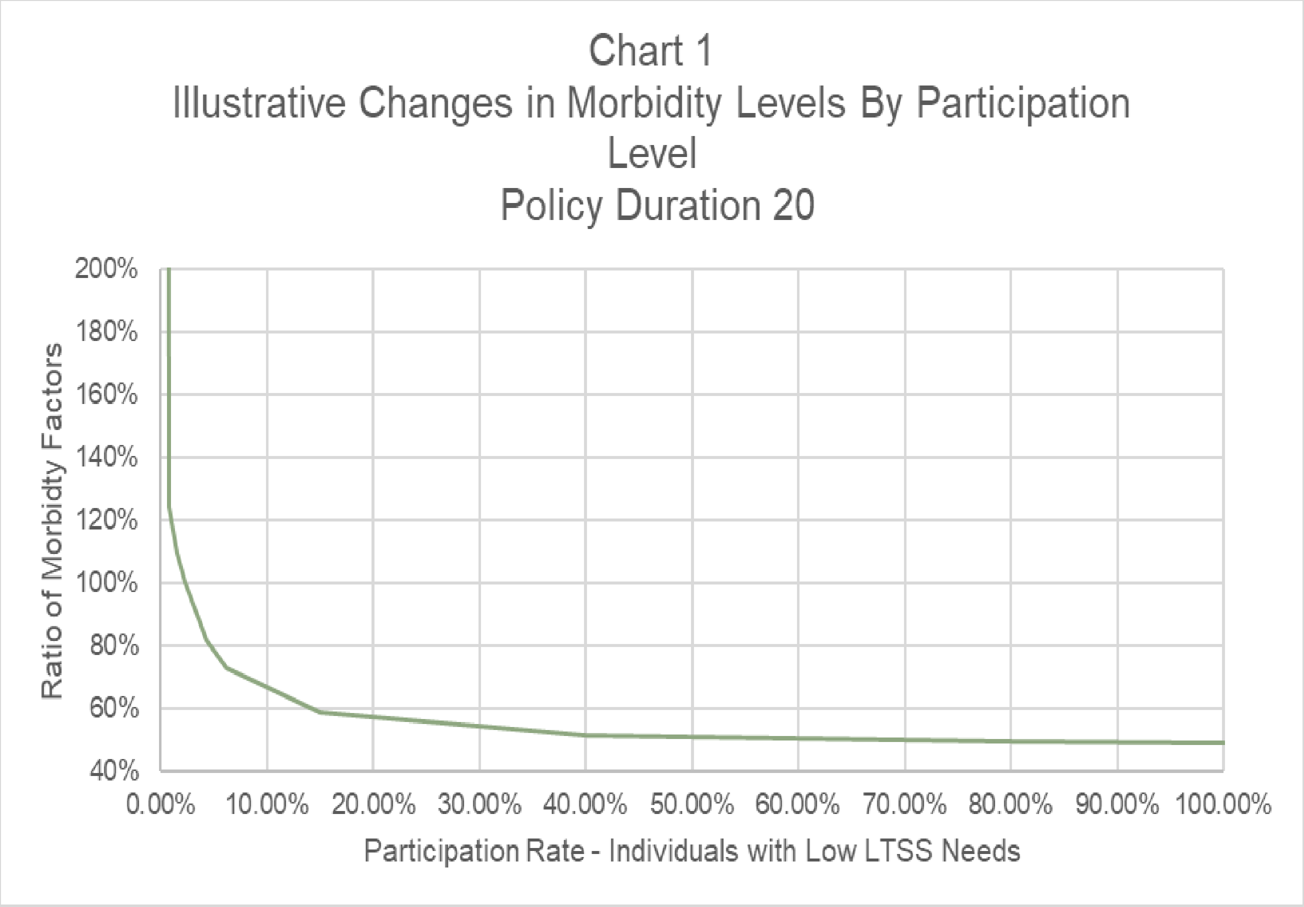
- Under Core Plans, individuals who are already retired or nearing retirement will likely not be eligible to receive benefits under the program
- Retiree buy-in alternatives would permit individuals age 65+ to buy into program
- Alternatives considered a less restrictive vesting requirement, paying taxes into the program at least one of the last three years, would apply to buy-in individuals
- Retirees will pay premiums indefinitely, as long as they are not receiving benefits
- Premiums are highly sensitive to even small incremental changes in participation
- Scenarios with little to no underwriting may not be able to be priced adequately due to potential adverse selection

Modeling Alternatives

Buy-In Program Alternatives – Testing Results

Alternative	Annual Premium in 2025, Indexing at 3%[1]
No underwriting	$2,200
“Middle” option	$2,000
Full underwriting	$1,000

[1] Illustrative premiums for issue age 65 at the start of the program. Premiums increase every year by 3% (e.g., for retiree who opts into program at start, premium would be $1,000 x 1.03 ^ 2 = $1,061 under the full underwriting option in 2027).



Caveats and Limitations

The data provided in this presentation has been prepared for the internal use of the California State Department of Health Care Services (DHCS), and it should not be distributed, in whole or in part, to any external parties without the prior permission of Milliman. We do not intend this information to benefit or create a legal liability to any third party. This communication must be read in its entirety.

The information in this presentation provides a summary of findings from our report dated September 9, 2020 on the feasibility of policy options to finance long-term services and supports (LTSS) in the State of California. It may not be appropriate, and should not be used, for other purposes. The information included in this presentation and the report should only be considered in its entirety.

In completing this analysis we relied on information provided by DHCS and publicly available data, which we accepted without audit. However, we did review this information for general reasonableness.

Many assumptions were used to construct the estimates in this report. Actual results will differ from the projections in this report. Experience should be monitored as it emerges and corrective actions taken when necessary.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Jeremy Cunningham, Chris Giese, and Annie Gunnlaugsson are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report.

The terms of the Personal Service Contract with California State DHCS effective November 12, 2019 apply to this engagement.

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Thank you!