

WA Cares Fund

Risk Management Framework



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WA Cares Fund Risk Management Framework

Executive Summary

WA Cares Fund, known as the Long-Term Services and Supports Trust enacted in RCW 50B.04, is a contributory long-term services and supports insurance program with a lifetime maximum benefit of \$36,500 (in its first year) for all eligible Washington employees. It is currently financed by an employee premium of 0.58% of wages. Individuals who have met the WA Cares Fund work and contribution requirements of 10 years with no more than a 5-year interruption (or 3 out of the last 6 years at the time of application), and who need assistance with a qualifying number of activities of daily living, may claim WA Cares Fund benefits from approved providers. WA Cares Fund is a cross-agency project administered collaboratively by the Department of Social and Health Services (DSHS), the Employment Security Department (ESD), and the Health Care Authority (HCA). The Office of the State Actuary performs actuarial valuations and makes recommendations to maintain trust solvency. On January 1, 2022, ESD begins collecting premiums from covered workers, and self-employed individuals can begin opting in. On January 1, 2025, DSHS will begin paying benefits on behalf of eligible beneficiaries.

WA Cares Fund is overseen by the 21-member LTSS Trust Commission (the Commission). Per Chapter 50B.04.030 (4)(g) RCW, the LTSS Trust Commission shall advise the Legislature on actions necessary to maintain WA Cares Fund solvency. The Commission's recommendations are guided by the joint goals of maintaining benefit adequacy and maintaining Trust solvency and sustainability.

In October 2020 the Office of the State Actuary made a recommendation to the Commission to establish a risk management framework for the WA Care Fund program that is consistent with the program's financial goals. At their December 2020 meeting, the Commission established a workgroup to propose a risk management framework to enable managing future risks in coordination with the Office of the State Actuary.

This following Risk Management Framework was approved by the Commission on [PENDING – Date to be added].

Risk Management Framework

The WA Cares Fund Risk Management Framework includes:

- Funding goal (desired outcomes for the program)
- Risk management approach (to support the funding goal)
- Risk management reporting and metrics (to support and inform the approach)
- Response strategies (when the funding goal is not met or is threatened)
 - Strategic response
 - Potential future policy actions
- Sharing the risk management framework with other entities

Funding Goal

The Commission adopted the following funding goal for the WA Cares Fund:

- Provide secure and meaningful benefits at the lowest expected cost for beneficiaries now and in the future.

Risk Management Approach

A hybrid approach to risk management has been adopted and allows decision-makers the opportunity to operate in phases by observing early program data and experience before recommending immediate changes to manage risk. Over the long-term the approach takes into account proactively working towards achieving fully funded status over a 75-year period including a margin. (See Figure 1)

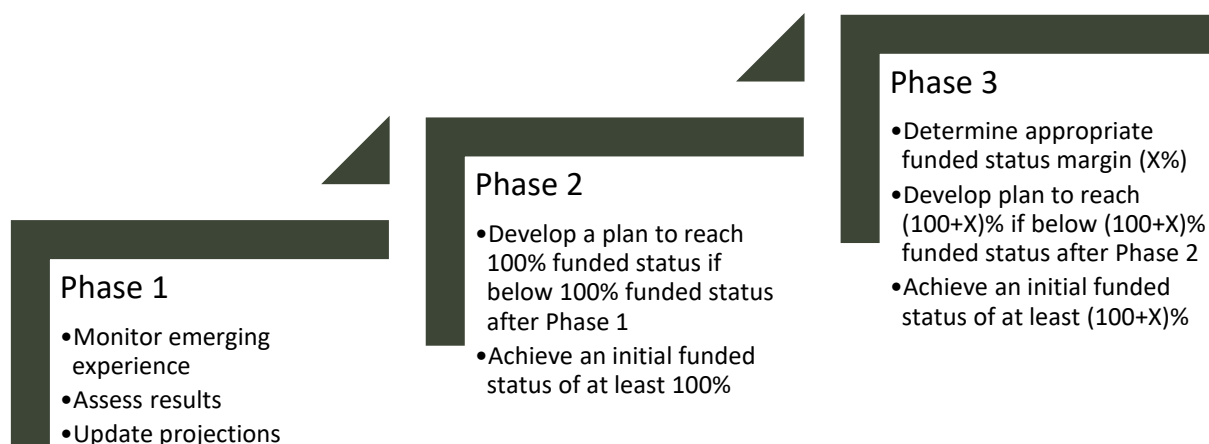


Figure 1: Risk Management Approach

Program experience will be monitored by the commission, Office of the State Actuary and partner agencies, and updated projections will be conducted during Phase 1, which is anticipated to end no sooner than the end of 2026. This will allow time for credible premium data to be gathered and some early benefit utilization experience. This approach considers policy issues and program parameters that are currently being implemented and clarified.

Program monitoring and actuarial analysis will be an ongoing activity throughout Phase 2 and 3. The length of time spent in Phase 2 or 3 is dependent upon variables and outcomes in the early years of the program and their impact on solvency and expected premium rates to fully fund the program. The goal of Phase 2 is to reach 100% funded status and the goal for Phase 3 is to determine an appropriate margin and achieve that funded status that includes that margin. A margin, or cushion, allows the program to be better equipped to handle an adverse event, such as lower than expected investment returns or higher than expected program disbursements, without driving immediate implementation of a response strategy. If at the end of Phase 1 the trust is at 100% funded status, then the Commission would proceed to Phase 3. Response strategies may be recommended by the Commission during any phase to support meeting the goals of a particular phase.

Additionally, the Actuarial Control Cycle offers a systematic approach to ongoing analysis of fund solvency and risk management of the WA Cares Fund. Looking ahead this control cycle is expected to be the foundation for regular risk management review within the phases as described above and shown below. (See Figure 2)

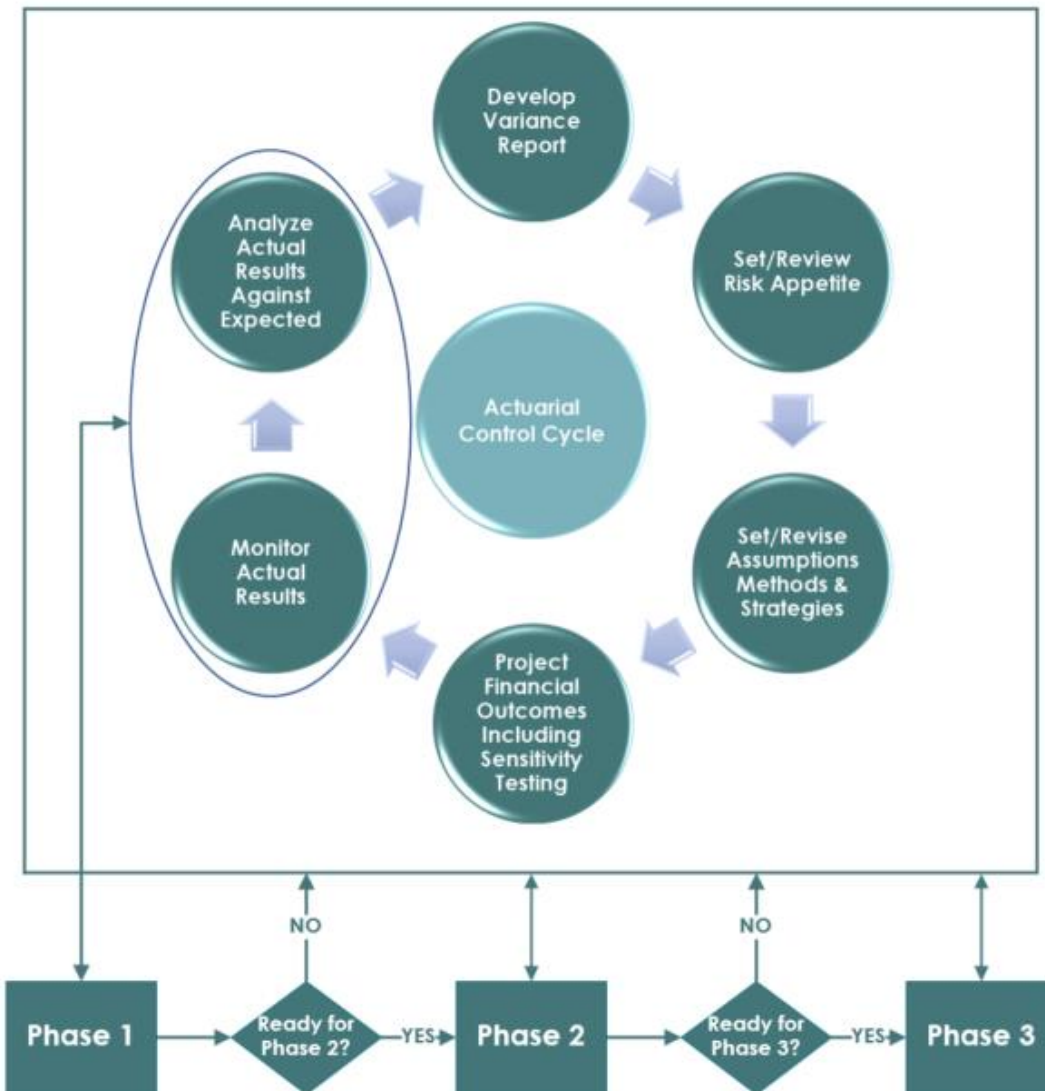


Figure 2: Actuarial Control Cycle within the Risk Management Framework

External factors influence this control cycle and will be factored in at the relevant steps and points in time. For example, the economic environment (inflation, wage growth, etc.), political environment, (a constitutional amendment affecting investment strategies) and workgroup outcomes and stakeholder feedback (program changes in rule, statute, or benefit administration) will impact assumptions, methods, and strategies. This is an iterative process beyond the risk management framework approach and supports ongoing program analysis and results monitoring.

There is no specific starting point in the control cycle. For WA Cares, some of the items in the cycle have already been performed, e.g., "Project Financial Outcomes Including

Sensitivity Testing”, some are still in process, e.g., “Set/Review Risk Appetite“, and some are still to be performed, e.g., “Analyze Actual Results Against Expected.” During each phase we may work our way through the cycle multiple times before moving onto the next phase.

Risk Management Reporting and Metrics

[PLACEHOLDER – pending Commission feedback and any workgroup adjustments]

Response Strategies

[PLACEHOLDER – pending Commission feedback and any workgroup adjustments]

Sharing the Risk Management Framework with Other Entities

[PLACEHOLDER – pending Commission feedback and any workgroup adjustments]