

LTSS Trust Commission Investment Strategy Subcommittee Meeting Minutes

Meeting Date		11/4/22		Time		9:00 am – 10:30 am	
<b>Attendees</b>							
✓	Representative Paul Harris	x	Representative Drew MacEwan	x	Representative Frank Chopp	✓	Representative Nicole Macri
✓	Senator Curtis King	x	Senator Judy Warnick	✓	Senator Karen Keiser	✓	Senator Steve Conway
✓	Secretary Jilma Meneses, Department of Social and Health Services	x	Kelly Lindseth, Employment Security Department		TBD, Person considered experienced and qualified in the field of investment #1		TBD, Person considered experienced and qualified in the field of investment #2
	TBD, Person considered experienced and qualified in the field of investment #3		TBD, Person considered experienced and qualified in the field of investment #4				
<b>Guest Speakers</b>							
✓	Angel Sullivan, Department of Social and Health Services	✓	Chris Hanak, Washington State Investment Board	✓	Matt Smith, Office of State Actuary		

Topic	Minutes
<b>Welcome and Call to Order</b>	<ul style="list-style-type: none"> <li>Commission members in attendance indicated above.</li> <li>Senator Conway reviewed the meeting goals.</li> </ul>
<b>Consent Agenda</b> <ul style="list-style-type: none"> <li>04/05/2022 Meeting Minutes</li> <li>2023 Meeting Dates</li> </ul>	<ul style="list-style-type: none"> <li>Representative Macri moved that the minutes from the 04-05-2022 Investment Strategy Subcommittee meeting be approved. The motion was seconded by Senator King. A vote was taken, and 6 voted aye, 0 voted nay. The motion was passed.</li> <li>Senator Keiser moved that the 2023 meeting dates be approved. The motion was seconded by Representative Harris. A voice vote was taken, and 6 voted aye, 0 voted nay. The motion was passed.</li> </ul>
<b>WA Cares Fund Investment Plan</b>	<ul style="list-style-type: none"> <li>Chris Hanak gave an update on the WA Cares Fund Investment Plan.</li> <li>Investment Policy and Strategy                             <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> <li>The Board-adopted policy can be found at <a href="https://www.sib.wa.gov/docs/policies/2_35_600.pdf">https://www.sib.wa.gov/docs/policies/2_35_600.pdf</a></li> </ul> </li> <li>Current Status                             <ul style="list-style-type: none"> <li>WSIB Institutional Relations Director and Investment Accounting and Administration Director have been collaborating with the Cross-Agency Finance Group</li> <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 WSIB in June 2022</li> <li>Payroll deductions to start in July 2023</li> <li>WSIB anticipates receiving assets for investment in the third quarter 2023</li> </ul> </li> <li>Quarterly investment performance will be presented to the Trust Commission Investment Strategy Subcommittee following the first full quarter of investing implementation</li> </ul> </li> </ul>
<b>OSA provide update on Milliman 2022 Report</b>	<ul style="list-style-type: none"> <li>Matt Smith provided an update on Milliman's 2022 Report</li> <li>Milliman's 2022 Actuarial Study</li> </ul>

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- o Prior study published in fall 2020
  - o Updated 2022 study reflects current law
  - o Includes relevant changes to covered population, plan design, and assumptions
  - o Investment return assumption updated to reflect the investment policy adopted by the WSIB—100% investment in a diversified fixed income portfolio
  - o Some updates improve program's expected financial outlook; some updates worsen it
  - o Milliman will review the updated analysis in detail at the November LTSS Trust Commission meeting
  - Evaluation of Projected Fund Solvency
    - o A solvent fund will have sufficient expected revenue, based on the current law premium rate, to pay all expected future program benefits and expenses over the projection period
      - Current program projections extend through June 30, 2098
    - o Based on the data, assumptions and methods used in Milliman's 2022 Actuarial Study, and current law as of that study, the program is projected to be solvent for most scenarios evaluated including the base plan scenario
    - o There were scenarios identified that, without corrective action, could lead the program to have insufficient revenue to provide for full program benefits over the entire projection period
- Open for questions
- Senator King: Thanked for the report and appreciated it. Unsure if has the availability to answer, but if a person applies, they will get an answer in 30 days vs the 45 days to respond by statute.
    - o Matt Smith: Correct. On average, Milliman assumes 30 days for DSHS to pay a claim. The law says that DSHS has to pay it within 45 days.
  - Senator King: Another question, in the analysis, does this include volunteers that would no longer have to pay in? That the people who work in state but live out of state and some portion of the military won't not have to pay. Is this the group they are referring to as the voluntary part of it?
    - o Matt Smith: Correct. There are quite a host of people that have the option to participate or not in this plan. Those types of plan provisions introduce uncertainty in the modeling and can lead to adverse selection. If they assume that every single one of them has high adverse selection, that's one of the things that would contribute to potentially higher required premiums.
    - o Senator King: What number did they use for those that have already opted out of this program? Has heard it was anywhere from 133,00 to 333,000.
    - o Matt Smith: Remembers it being in the 470,000 – 480,000. It is based on the number from ESD.
    - o Ben Veghte: Originally, they had a much lower level, but thinks they used 473,000, which is about 2,000 less than the current number. The assumption is 99% accurate.
  - Senator King: Assumes that no portability was included in this analysis.
    - o Matt Smith: Correct, just what was is in the current law.
  - Senator King: Is skeptical that we can do the Milliman analysis, and have it come out so that they end up at 0.58 and that is where want it to be and where they started. Wants to note that is just a comment on their behalf. Thanked for answering their questions.
  - Ben Veghte: An interesting piece of context in the modelling is that the base plan assumption is that 100% of people who live out of state and commute to work in Washington will choose to not participate. Thinks the assumption there is fairly conservative.
  - Conway: Noted that we have a workgroup that is evaluating the issue of portability and this issue has yet to be resolved. What did Milliman use in terms of vesting in this plan? What did they use as the assumption for vesting requirement?
    - o Matt Smith: Doesn't think they provided a table with numbers to point to, so might have to get back
    - o Ben Veghte: Doesn't recall a table but knows that Milliman is aware of the statutory requirements and that people could qualify in 10-year pathway, 3 out of the last 6 years pathway, and the near retiree pathway. The modeling does reflect the current statute's vesting requirements.

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	<ul style="list-style-type: none"> <li>• Senator Conway: Does Milliman's analysis look at cash flow issues? Curious whether this analysis addressed that. Payroll tax is quarterly, so that quarterly payment has meant that in some plans that has created some cash flow issues and is curious whether or not the Milliman analysis gives a head start on this issue.             <ul style="list-style-type: none"> <li>◦ Matt Smith: Referred to <a href="#">Milliman analysis</a> and displayed Figure 2 on page 7. A fundamental portion of their work is to project cash flows. In Figure 2, they're projecting all the inflows from this program and the projected outflows. This graph simplifies this. Future dollars can get really large and sometimes hard to comprehend over 75 years. The blue line reflects the accumulation of premiums and investment returns, while the green line reflects the accumulation of outflow expenditures. This shows how the fund is going to bring in a lot of revenue up front at a time when it's paying very few benefits. As the program matures and we start paying out more benefits, you see it sort of switch where outflow will exceed income flow. Important to note that at the end of the 75-year projection, the blue line is still positive. This program is in a significantly different position and is financed differently than the Paid Family and Medical Leave program. You're going to see a collection of premiums and a buildup up of a fund for many, many decades before you see any scenario where outgoing payments are larger than incoming revenue.</li> </ul> </li> <li>• Senator King: Thinks it was mentioned that a way to be eligible is 3 out of the last 6 years. Thinks this probably isn't for this group, but thinks they need to look at the ramification of that statement and what the group was that was in there for. Thinks it was written a way that there is no limitation on it and should be looked at or all these things may be under water.             <ul style="list-style-type: none"> <li>◦ Senator Conway: The Benefit Eligibility workgroup is going to have a report at the next Commission meeting, and they are looking at the impact on 3 out of the last 6 years. There is going to be an effort to look at this pathway and see what it is costing the plan. Invited Senator King to the meeting.</li> <li>◦ Senator King: Appreciated the invite and will try their best to be there.</li> </ul> </li> <li>• Ben Veghte: Wanted to remind everyone that there is a Cross-Agency Finance Group that's working on ensuring that revenues are far more than sufficient to both repay the general fund and pay benefits in the early years. The cross-agency group across all these agencies including SIB, ESD, DSHS, and OSA to plan cash flows and make sure that there are no shortfalls.</li> </ul>
<b>Elect a new 2023 Chair</b>	<ul style="list-style-type: none"> <li>• Representative Macri nominated Representative Harris to chair the Investment Strategy Subcommittee for 2023. There were no other nominations. The motion was seconded by Secretary Meneses. A vote was taken, and 6 voted aye, 0 voted nay. The motion was passed that Representative Harris is the chair in 2023.</li> </ul>
<b>Set Agenda for next ISS meeting in June</b>	<ul style="list-style-type: none"> <li>• Senator Conway reviews the proposed agenda items for the next meeting in June.             <ul style="list-style-type: none"> <li>◦ Investment Plan Status Report</li> <li>◦ Update from Cross-Agency Finance Group</li> </ul> </li> </ul>
<b>Public Comment</b>	<ul style="list-style-type: none"> <li>• Public Comment captured in the table below.</li> </ul>
<b>Wrap up</b> <ul style="list-style-type: none"> <li>• Action Items Review</li> <li>• Adjourn</li> </ul>	<ul style="list-style-type: none"> <li>• No action items noted during this meeting</li> <li>• Senator King made a motion for adjournment. The motion was seconded by Representative Macri. A voice vote was taken, and the motion was passed. Meeting adjourned at 10:02 am</li> </ul>

Public Comment	
<b>Sandy Wood</b>	<p>I'm the owner of the Benefits Academy. I'm an insurance agent in the state of Washington. And I would ask that the committee have Milliman look at three different analyses. One would be for changing the program from a fee for service in benefits to a flat monthly payment. Most insurance companies moved that way about 20 years ago. That would save the program approximately \$30 million a year in administration fees. I'd also like them to look at what it would do to the rates if we offered a new opt out where people could opt out at any time as long as they kept insurance policy in place, and there would be no deadline on the opt out. That would help with the uproar from constituents. And the other would be changing from facility and home benefit payments to home only. We know that the benefit level is pretty low, \$36,500 per lifetime, and that would also help with the problem of having a wraparound product. The carriers already</p>

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	have a wraparound product that would work with a home only program that the state would offer. So those are my three comments. Thanks.
<b>Yuki Cheng</b>	I have several instead of comments, I have questions I want to verify. One is about the exemption part. I understand that we do have, like, an amendment to the program so that the people working in Washington state but are living in a different state can be exempt, right? And also the people working for different state but living in here actually because in prior years outside of state, they won't pay the premium for funding this program, correct? I want to verify. If that's the case, I understand that right now, because I have some clients in different state. For example, California right now is also following Washington state staff, trying to get long term care funding themselves. In that case, is there any ongoing consideration for, like, exchange kind of state to state having put them together to say if you already paid there, this one can be also exempt or what. Is there any consideration on that? The second question is for the analyze insight, I understand for the, I forgot the name, for the exemption about the interest rate, rate of return is 4% plus or minus 1% and get analyzed. That interest rate range is based on what kind of analyze? What kind of history has been used to see what kind of-
<b>Elizabeth Hovde, Washington Policy Center</b>	Thanks for hearing me today. My name is Elizabeth Hovde, I work for the Washington Policy Center. And we remain concerned that the tax rate for this fund will grow, much like the paid Family and Medical Leave Fund has grown, and I hope you are, too. I would caution against messaging strongly that this is a solvent program. Thank you very much.
<b>Louis Brownstone</b>	My name is Louis Brownstone. I'm Chairman of California Long term Care Insurance Services. And I have a question. We are in a period right now, a short-term period, I hope, of a great deal of inflation. And I'm wondering what the assumptions are, long-term, on the increase in revenue through the payroll tax deductions and what it might do to increase the solvency of the program if the current assumptions are low.