

June LTSS Trust Commission Investment Strategy Subcommittee Meeting Minutes

Meeting Date		6/2/2023		Time		1:00 pm – 4:00 pm	
Attendees							
<input checked="" type="checkbox"/>	Representative Paul Harris (Chair)	<input type="checkbox"/>	Vacant, Representative	<input type="checkbox"/>	Representative Frank Chopp	<input checked="" type="checkbox"/>	Representative Nicole Macri
<input checked="" type="checkbox"/>	Senator Curtis King	<input checked="" type="checkbox"/>	Senator Judy Warnick	<input type="checkbox"/>	Senator Karen Keiser	<input checked="" type="checkbox"/>	Senator Steve Conway
<input checked="" type="checkbox"/>	Secretary Jilma Meneses, Department of Social and Health Services (Bea designee)	<input checked="" type="checkbox"/>	Matt Buelow, Employment Security Department	<input type="checkbox"/>	TBD, Person considered experienced and qualified in the field of investment #1	<input type="checkbox"/>	TBD, 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	<input type="checkbox"/>		<input type="checkbox"/>	
Guest Speakers							
<input type="checkbox"/>	Andrea Meewes Sanchez, Department of Social and Health Services	<input checked="" type="checkbox"/>	Andrea Meewes Sanchez, Department of Social and Health Services	<input checked="" type="checkbox"/>	Chris Hanak, State Investment Board	<input checked="" type="checkbox"/>	Eric Mandt, Department of Social and Health Services

Topic	Minutes
Welcome and Call to Order	<ul style="list-style-type: none"> Investment Strategy Subcommittee members in attendance indicated above. Representative Harris reviewed the meeting goals.
Approve Minutes	<ul style="list-style-type: none"> Senator Conway moved that the minutes from the 11-4-2022 Investment Strategy Subcommittee meeting be approved. The motion was seconded by Senator King.
WA Cares Fund Program Refresh	<ul style="list-style-type: none"> Andrea Meewes Sanchez reviewed the slide regarding the WA Cares Fund key program details from the current statute. Key program details per current statute (RCW 50B.04): <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 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

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	<ul style="list-style-type: none"> • Senator King: When you say “pay direct”, so if you’re a spouse taking care of a loved one, then the check would be cut and sent to the spouse that is providing the care? <ul style="list-style-type: none"> ○ Andrea Meewes Sanchez: The family would receive the money, correct. We are going to be working with Consumer Directed Employer (CDE) of Washington to employ the spouses and family members who would be providing that care. The spouses would be receiving that payment for the services. • Senator King: When you say three of the last six years, there is no limitations on what percentage you are eligible for. <ul style="list-style-type: none"> ○ Andrea Meewes Sanchez: Right. If somebody ends up having a major accident, cancer, or stroke, and they have contributed for three years, they could get access to the full benefit, just as long as the three years happens within the last six.
<p>WA Cares Investment Plan Status Report</p>	<ul style="list-style-type: none"> • Chris Hanak provided an update on the WA Cares Investment Plan Status Report. • Investment Policy and Strategy <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 • WSIB Fixed Income Historical Performance <ul style="list-style-type: none"> ○ The WA Cares fund will be invested in a similar manner to the fixed income component of the Retirement Funds' Commingled Trust Fund (CTF) ○ The WSIB has an experienced and stable fixed income team with a long history of generating strong risk-adjusted performance <ul style="list-style-type: none"> ▪ The co-portfolio managers have over 50 years of combined experience managing the WSIB fixed income portfolios • Current Status <ul style="list-style-type: none"> ○ WSIB is ready to invest once assets received <ul style="list-style-type: none"> ▪ Accounts established at WSIB's custodian bank ▪ Investment policy adopted by the WSIB in June 2022 ▪ Payroll deductions to start in July 2023 ▪ WSIB anticipates receiving assets for investment in November 2023 ○ Quarterly performance measurement will be presented to the Trust Commission Investment Strategy Subcommittee following the first full quarter of investing after the Fund reaches \$250 million, which is expected to occur during the first quarter of 2024 <p><u>Open for questions:</u></p> <ul style="list-style-type: none"> • Senator King: Just curious, obviously we are going to start collecting July 1st, so that's July, August, and September. The payments will start coming in October. Are we accumulating those and then giving them to you to investing in November? Is it possible that they come in mid-October, could they transfer the funds over for the investment?

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	<ul style="list-style-type: none"> ○ Chris Hanak: Assumption was they will start seeing them in November, but are set up and ready to go. As soon as funds become available and can be sent to WSIB, the accounts are established and can be ready to receive and invest as they arrive. ● Senator Conway: The employers have to collect these dollars and give to the Employment Security Department. Knows there is a little bit of a delay in that and need to consider this delay as we analyze this. Takes a while for the dollars to get to the state. Assuming that this is interest rate sensitivity and that with higher interest rates, the fixed income portfolio is stronger. Is that right? <ul style="list-style-type: none"> ○ Chris Hanak: That is accurate. As we are sitting here, pulled up some stats around the index that this will be benchmarked against. One of the things looked at is “yield to worse”. If you bought the index right now, what would the yield be on all the bonds in there, just under 5% for that index. So, that’s substantially higher than they saw before they had the significant increases from the fed over the period of about a year ago. Moral of the story, it is the better time to start one of these programs than it was a little while ago, from a return standpoint.
<p>Update from Cross-Agency Accounting Workgroup</p>	<ul style="list-style-type: none"> ● Eric Mandt provided an update from the Cross-Agency Accounting Workgroup. ● Purpose: The WA Cares Fund cross-agency accounting workgroup is responsible for aligning LTSS fund and account management responsibilities, policies, and processes. ● Agency leads <ul style="list-style-type: none"> ○ Department of Social and Health Services ○ Employment Security Department ○ Health Care Authority ○ Office of Financial Management ○ Washington State Investment Board ○ State Treasurer’s Office ● Progress on key decisions <ul style="list-style-type: none"> ○ New Chair – Eric Mandt ○ Defining the process for the projected cash flow and investment deposits ○ Defining the process for repaying the General Fund for prior expenses <p><u>Open for questions:</u></p> <ul style="list-style-type: none"> ● Senator Conway: Will we be getting reports? When will this workgroup or the legislative committees get some kind of report on the movement of these funds and balances? What is the plan for reports to the members of this committee and also the legislative committees? This is probably a new initiative to bring all funds that are moving in and out of state treasury. It would be interesting for the budget heads to understand some of this. Wonder if they’re anticipating some kind of quarterly or biennial report. <ul style="list-style-type: none"> ○ Eric Mandt: That is an excellent question and certainly makes sense. They haven’t addressed that from the accounting workgroup but can put that to the team when they meet in July. Is there a preference for how often you would like that report given there are quarterly transfers? ○ Senator Conway: If going to be drawing funds to pay for the loan, seems like a report would be needed to have some kind of understanding of that. Thinks the Commission should be getting this, or someone should be reporting back to the Commission members.

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	<ul style="list-style-type: none"> • Senator King: Would like to see a report quarterly for the first couple of years so they can track it. We will start paying out in 3 years and need to be able to track whether they are going to be able to cover all those requirements and whether the fund will continue to grow or start dwindling. • Secretary Meneses: 100% agrees with the question and with the request. We owe it to the tax payers, members of the Commission, and to the Investment Strategy Subcommittee for DSHS to present the reports at the meeting. Thinks that should be a standard of practice moving forward for DSHS. The amount of money calls for that type of review and warrants that assessment. In favor to do that and could ask the committee to direct DSHS if preferred. ACTION ITEM • Representative Harris: One thing mentioned is that we would know and look at the expenditures made so far. Do we know where we sit already on the amount of funds spent so far? <ul style="list-style-type: none"> ○ Eric Mandt: It is an estimate as far as through June, but something they could include in the report for actual expenditures. Thinks tying together all the agencies, for example, DSHS and ESD have significant costs for IT and staffing. ○ Representative Harris: Personally, would like to know what we started off with and what we have spent so far. ○ Eric Mandt: For an idea, it is about \$52 million through FY23. That is the amount of anticipated expenditures we are planning to pay right off the bat before the transfers to the State Investment Board begin.
Public Comment	Public Comment is captured in the table below.
Review Agenda for next Meeting	<ul style="list-style-type: none"> • Representative Harris reviewed the proposed agenda items for the next meeting. <ul style="list-style-type: none"> ○ Update on Premium Launch ○ Update on WA Cares Fund Investment Plan Status Report ○ Update from Cross-Agency Accounting Workgroup • Senator Conway: Thinking of the benefit programs experienced, a lot of them work in the concept of a reserve. Wondering if in the investment strategies, that they are accounting for the development of a reserve. <ul style="list-style-type: none"> ○ Matt Smith: Happy to answer this question. There are a couple of dimensions to this, one, we talk about reserves. The risk management framework that was adopted by the LTSS Trust Commission is going to consider and develop a reserve for this program, which is really just a margin for adverse experience. The second part of this, which thinks is really what they are after, is monitoring the short-term cash flow. The three-year period between collecting premiums and paying benefits, it was intentionally designed to build a short-term reserve. Milliman, for example, has modeled all of the cash flow expected for this program, premiums that are coming in, recognizing the people that have purchased long-term care insurance and received an exemption. We don't see any concern on not having adequate in flow to cover expected benefits, especially in the short-term. As an example, based on Milliman's latest analysis in their base plan scenario, they are estimating that the first year of premium revenue could be around \$900 million. That type of revenue could come in for three years before you pay a first benefit. They also modeled that folks that can qualify through three of the last six, that Andrea spoke to, that is also modeled in Milliman's analysis. You will see in some of their exhibits a bump in expected payments in the first year of the programs paying out benefits. Short answer, yes this is being discussed. It is part of the plan design and part of the funding policy. In the long run, it is going to be part of the risk management strategy to develop a long-term reserve that should provide the stability you are looking for. ○ Senator Conway: The question they have, in the workers comp funds, they have reserves and they move those out of the Labor and Industry account and put them into the State Investment Board. The reserves have generated income, which has helped lower the rate that employers pay for workers comp. Wondering if the reserve should be

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	<p>managed against the larger income flow. In other words, the reserve itself probably needs an investment strategy. Maybe I am wrong or maybe Curtis can answer that on the labor and industry side. The State Investment Board actually invests the reserves and in a different way they manage the other funds. Just raising the issue since we have had tremendous problems with Paid Family and Medical Leave in this area. Thinks that this is important for us to be thinking about whether or not a reserve needs to be kept separately from the general fund here. It would need some kind of investment strategy. Do you think we need that?</p> <ul style="list-style-type: none"> ○ Matt Smith: It is definitely a consideration. Right now, in the status quo, there hasn't been any discussion on if it would be invested differently than what Chris Hanak shared. This reserve we are referring to, would not be a sub-account or invested differently than the main fund, so that is what would happen now. We would benefit from having further discussions from the points you raised. You could set up a separate reserve if you thought it was necessary. If you wanted the reserve to be a bit more secure, that is an option. You may not need it given the cash flow we are expecting in the program. Last thing wanting to close with, in reference to Paid Family and Medical Leave program, thinks it's an important one. Completely different program and completely different cash flow. That program didn't have a lot of time to ramp up to pay for benefits and experienced significant uptake due to COVID. This program has three years to invest money before it pays out a single penny in benefits. Also, the nature of the benefit is not anything like Paid Family and Medical Leave. Most of the people are going to draw benefits much later in life, which also means there is a long period of time to accumulate premiums and investment returns. Milliman has modeled this and under most scenarios, you see a very significant growth of this fund before you have any really significant outflow. Has no concerns that this program in this short-term time frame will have any issue giving out payments.
<p>Wrap-up</p> <ul style="list-style-type: none"> • Action Item Review • Adjourn 	<ul style="list-style-type: none"> • Action items noted in the table below. • Meeting adjourned.

#	Action Items	Lead	Due Date
1	Quarterly Report for DSHS on the funds moving in and out.	Eric Mandt	

Name	Public Comment
John Egerter	Noticed that it was an actively managed fund, rather than an index fund or what not. Would prefer that we don't have really high expenses on that particular investment strategy going forward. Thank you.
Melanie Fisk	I just wanted to mention that I happen to be a broker in the employee benefits arena, and we have had many, many questions from groups and employees themselves and the biggest thing they are concerned about is the ability to opt out. I just thought it might be a great thing to make sure that information is easier to find, because I have to point it out myself to them. They think they can still opt out, and they can't. It is an ongoing thing, so I thought I would mention that, that we need a little bit clearer indication that opt out is no longer available.