



LETTER OF INTRODUCTION ACTUARIAL VALUATION OF THE WA CARES FUND

June 2025

As required under Chapter [50B.04](#) of the Revised Code of Washington (RCW), this report summarizes the results of an actuarial valuation of the WA Cares Fund. This valuation was performed by Milliman with measurements as of June 30, 2024.

Additionally, it includes the Office of the State Actuary’s (OSA) recommendations to the Pension Funding Council (PFC) and the Legislature on actions necessary to achieve and maintain trust solvency. Statute previously also required recommendations to the Long-Term Services and Supports (LTSS) Trust Council related to annual increases of the program’s benefit unit. [Engrossed Senate Substitute Bill 5291](#), which passed during the 2025 Legislative Session, eliminated the LTSS Trust Council. The bill also fixed the annual increase to the benefit unit equal to applicable inflation. This change will provide a more predictable value for purposes of coordinating the WA Cares program benefit with supplemental private market long-term care policies.

Under RCW [50B.04.020](#), OSA is required to perform an actuarial audit and valuation of the WA Cares Fund. We contract with Milliman to prepare WA Cares Fund actuarial valuations. Additionally, we contracted with another long-term care actuarial consulting firm to provide a second opinion on financial projections of this program. Their independent model provided an additional feasibility assessment of the program. This increased OSA’s comfort with the reasonability of Milliman’s approach as well as highlighting key assumptions and risk. We believe having independent, external reviews is an appropriate and beneficial governance component. Depending on the scope and degree, additional funding may be required to incorporate recurring actuarial audits of the program.

This report is organized into the following sections:

- ❖ Executive Summary of Actuarial Valuation.
- ❖ Recommendations.

OSA prepared the **Executive Summary** to provide highlights of [Milliman’s 2024 Actuarial Valuation Report](#) (Milliman’s 2024 AVR). It also contains background on the program and education on report terminology. The **Recommendations** section documents OSA’s recommendations relevant to the key responsibilities of the groups that oversee the program.



Executive Summary of Actuarial Valuation

The analysis and commentary below are meant to provide additional context and considerations for the WA Cares Fund program. It is based on actuarial analysis prepared by Milliman. Please refer to [Milliman’s 2024 Actuarial Valuation Report](#) (Milliman’s 2024 AVR) for their complete analysis, assumptions, and certification.

No singular graph or table is sufficient to draw concrete outcomes on the future solvency of the WA Cares Fund. Please refer to the Office of the State Actuary’s (OSA) WA Cares Fund [webpage](#) for our most recent Solvency Report, which includes program recommendations to achieve and maintain solvency, as well as the Long-Term Services and Supports (LTSS) Trust Commission’s [Risk Management Framework](#) (RMF), which provides guiding principles to manage program risk.

Background

The WA Cares Fund began collecting premiums from covered workers starting July 1, 2023, with eligible beneficiaries receiving benefits starting July 1, 2026 (July 1, 2030, for eligible out-of-state beneficiaries). For more information on the WA Cares Fund program, we encourage you to visit the program’s [website](#).

Milliman prepared a model to project expected program revenue and expenditures over the next 75 years (2024-2099) to assist OSA’s duties outlined in the Revised Code of Washington 50B.04.020 and help inform the RMF. Revenue comes from covered workers’ premiums and the investment returns on those premiums. Expenditures refer to program benefit payments and expenses.

The results of the model are highly sensitive to the assumptions used, and the provisions of the program that allow for voluntary participation introduce additional uncertainty in program financial projections. To provide a sense for how the results of the model can vary due to voluntary participation, Milliman runs the model under various scenarios to establish a “baseline” range of results.

The “base scenario” represents one specific scenario within the baseline that can be used as an anchor point for ease of comparison and discussion. Milliman presents the base scenario as a single-point estimate, but it does not represent a “most likely” estimate. According to Milliman, all scenarios within the baseline analysis are equally likely.

For each scenario run through the model, Milliman calculates an “actuarial balance” at the measurement date. The latest measurement date was June 30, 2024.

Specifically, the actuarial balance combines the program’s expected cash flows (inflows and outflows), future investment returns, and past accumulated premium revenue into a single metric. The result represents the difference between (a) the present value of future premium revenue (including the accumulated value of past premium revenue) and (b) the present value of future expenditures over the 75-year measurement period. A positive actuarial balance means, under that specific scenario, the program is



projected to have sufficient assets to pay all program expenditures during the 75-year projection period.

The actuarial balance is displayed in one of two ways: in dollars, and as a percentage of future program claims. For example, a 10% actuarial balance would indicate that at the given measurement date, and under a given scenario, the program is expected to accumulate sufficient assets to cover 110% of future expected program claims over the next 75 years if all assumptions are realized. Conversely, a (10%) actuarial balance means the plan is expected to accumulate sufficient assets to cover 90% of future expected claims under the same set of assumptions.

For each scenario run through the model, Milliman also calculates a “fund ratio.” The fund ratio represents the projected fund balance as a percentage of program expenditures in any given year of the projection. This metric can be used to evaluate the fund’s sufficiency to pay expected benefit payments in a particular program year.

Both the actuarial balance and the fund ratio summarize the fund’s projected financial status, but focus on different periods. The actuarial balance summarizes fund solvency over the entire 75-year projection whereas the fund ratio summarizes fund sufficiency for the upcoming year of a given year in the 75-year projection.

Summary of Key Results from Milliman’s 2024 AVR

Actuarial Balance Under Base Scenario

According to Milliman’s 2024 AVR, the program is projected to have an actuarial balance of 3.5% under the base scenario. Based on this measurement, the program is projected to have sufficient assets to pay full expected benefits and expenses during the entire 75-year projection plus an additional 3.5% of expected program claims for future adverse experience. See **How the Key Results Change under Different Assumptions** for additional information on scenarios that vary from the base scenario.

Milliman’s 2024 AVR is based on a premium rate of 0.58% and current law benefit provisions as of June 30, 2024.

The following figure summarizes the calculation of the actuarial balance as of June 30, 2024, under the base scenario.



Figure 2
Washington Office of the State Actuary
Base Scenario Actuarial Balance
Values in Billions | Discount Rate = NIER¹

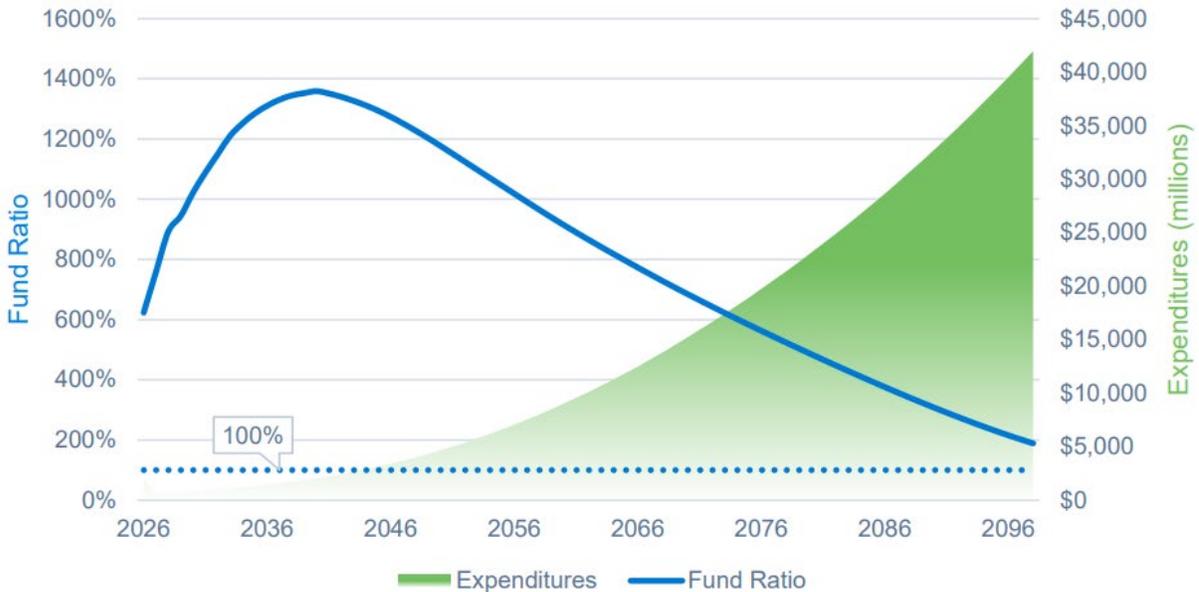
Present value of future premiums	\$130.4	(1)
Present value of future claims	\$118.6	(2)
Present value of future expenses	\$8.7	(3)
PV of future premium less expenditures	\$3.1	(4) = (1) - (2) - (3)
Modeled fund level as of June 30, 2024	\$1.3	(5)
Cost of 100% fund ratio target: year 75	\$0.0	(6)
Actuarial balance	\$4.4	(7) = (4) + (5) - (6)
As a percent of claims²	3.5%	(7) / [(2) x claims expense load]

¹ All amounts in billions; using net investment earned rates (NIER) for discounting.

² We also calculate actuarial balance as a percentage of claims (including claim expenses).

Fund Ratio Under Base Scenario

The following chart displays the projected fund ratio for each year of the 75-year projection under the base scenario.



Consistent with the positive actuarial balance under the base scenario, the figure above shows a fund ratio above 100% in each year of the 75-year projection. The fund level increases in the early years of the projection when expected revenue exceeds expenditures. The fund level decreases in the later years of the projection when expected expenditures exceed revenue.

How the Key Results Change with Different Assumptions

The actuarial balance and fund ratio are contingent upon future program experience matching economic and demographic assumptions for a given scenario. Actual experience will inevitably deviate from what is assumed.



Investment Risk

The following figure displays how the 2024 actuarial balance under the base scenario would change with the use of different, selected discount rates. In this context, discount rates are used to calculate the present value of future program cash flows and assess the degree to which the program relies on uncertain future investment returns to finance future benefits.

Figure 7 Washington Office of the State Actuary Base Scenario Actuarial Balance				
Actuarial Balance	Discount Rate			
	NIER	3.0%	4.0%	5.0%
Amount (\$ billions)	\$4.4	(\$5.9)	\$3.8	\$8.7
As a percent of claims	3.5%	(2.8%)	2.9%	9.9%

The Net Investment Earned Rate (NIER) was used to determine the 3.5% actuarial balance and is based on the expected rate of return on the program’s diversified fixed income investments over the measurement period. For this measurement, the NIER is 4.4% each year for the first 15 years of the projection grading down to an ultimate rate of 4.0% at year 30 of the projection.

The actuarial balance under the base scenario would decrease from 3.5% to (2.8%) with the lower assumed investment risk and lower returns associated with a 3.0% discount rate. The actuarial balance under the base scenario would increase from 3.5% to 9.9% with the higher assumed investment risk and higher returns associated with a 5.0% discount rate.

Small changes in the program’s assumed returns significantly impact the program’s projected status. Based on the current measurement, the program’s actuarial balance would become negative under the base scenario if assumed annual returns averaged approximately 3.5% or lower over the measurement period.

Adverse Selection Risk

The program includes provisions that allow certain individuals to elect coverage (or opt-out of coverage). Voluntary participation introduces adverse selection risk and additional uncertainty in the program’s financial projections. In this context, adverse selection risk materializes when individuals with a higher-than-assumed cost elect to remain in the program.

The following table illustrates how the actuarial balance would change if the assumed levels of adverse selection from the base scenario are replaced with higher or lower assumed levels from the baseline analysis. Milliman considers all scenarios in the baseline, including the base scenario, equally likely.



Figure 8
Washington Office of the State Actuary
Baseline Actuarial Balance

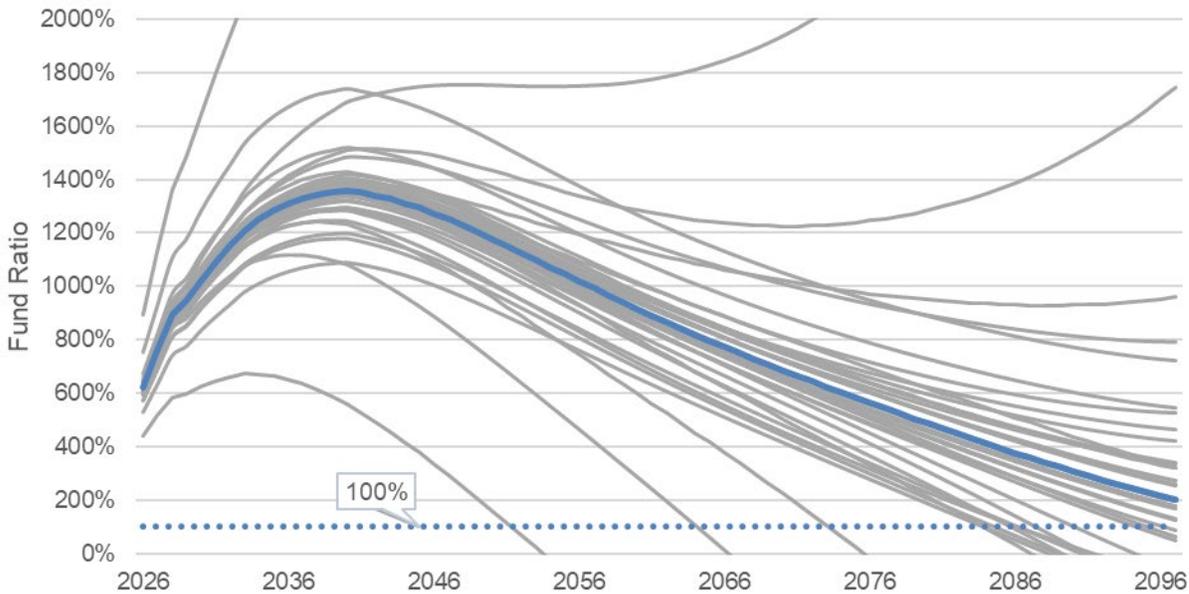
Actuarial Balance by Scenario	Discount Rate			
	NIER	3.0%	4.0%	5.0%
Amount (\$ billions)				
Base scenario	\$4.4	(\$5.9)	\$3.8	\$8.7
High adverse selection	(\$11.9)	(\$33.9)	(\$13.8)	(\$2.8)
Low adverse selection	\$26.4	\$30.2	\$27.6	\$25.0
As a percent of claims				
Base scenario	3.5%	(2.8%)	2.9%	9.9%
High adverse selection	(8.7%)	(14.5%)	(9.3%)	(2.9%)
Low adverse selection	22.8%	15.4%	22.1%	30.2%

Based on this analysis, the range for the projected actuarial balance widens to (14.5%) to 30.2% when you consider the adverse selection and investment risk modeled in this analysis. The current actuarial balance could accommodate certain levels of higher assumed adverse selection but not the level modeled in the high adverse selection scenario.

Other Economic and Demographic Risks

In addition to investment and adverse selection risk, the program will face other economic and demographic scenarios that vary from those assumed under the base scenario and some of those scenarios could vary significantly from the base scenario. For example, higher or lower migration, mortality, incidence, cost of care, wage growth, inflation, etc.

The following table illustrates the range of fund ratio results identified in the analysis when the model that produced the base scenario (blue line) was modified with different assumptions.





The current actuarial balance can accommodate many of the scenarios modeled in this assumption sensitivity analysis, but not all scenarios.

When interpreting this analysis, it’s important to note that it assumes no corrective action will be taken during the 75-year projection. If one of these alternative, adverse scenarios were to materialize in the future, corrective actions would lessen the negative impact on the program’s ongoing solvency.

Risk Management Framework

The program is currently in Phase 1 of the RMF. In this “learning phase” of the framework, the program collects data, monitors experience, reviews and updates assumptions when necessary, and updates actuarial projections. This approach increases the credibility of the actuarial assumptions we rely upon and increases confidence in the long-term actuarial projections.

The actuarial balance under a given scenario will vary from the most recent measurement with each future valuation. Future actuarial balances may also fall outside any range provided in the analysis.

Based on the results of Milliman’s 2024 AVR, the program is on track with Phase 1 of the RMF. We expect Phase 1 to end no sooner than 2028. We anticipate the later phases of the RMF will include the evaluation and establishment of a desired actuarial balance to support the ongoing financial soundness of the fund.

Caveats and Limitations

The information above is meant to provide additional context for the WA Cares Fund status. Please replace this summary with a future revised version when available. We intend for this summary to be used for informational purposes only and it should not be relied on, by itself, to make decisions impacting the WA Cares Fund.

OSA prepared the above commentary based on Milliman’s 2024 AVR. We encourage you to submit any questions you might have on the information above to our e-mail address at state.actuary@leg.wa.gov.



RECOMMENDATIONS

Summary of Recommendations

OSA recommends the following:

- ❖ The recommendations from our latest solvency report; and
- ❖ Pension Funding Council maintain the current premium rate of 0.58%.

Please see the following sections for details and supporting information.

Solvency Report

Each December, OSA has published a solvency report which includes our general recommendations to maintain trust solvency. These reports can be found on our WA Cares Fund [webpage](#).

Our [December 2024 solvency report](#)¹ identified the following three recommendations. Please refer to the report for additional detail.

- ❖ Continue to monitor emerging experience and update projections as part of Phase 1 of the RMF.
- ❖ Clarify key program parameters to ensure actuarial modeling is in line with expected program administration.
- ❖ Ensure data systems collect and report information necessary for ongoing evaluation of trust solvency.

For the PFC

Under [RCW 50B.04.080](#), beginning January 1, 2026, and biennially thereafter, the PFC is responsible for setting the WA Cares Fund premium rate charged to covered participants. The current law premium rate is 0.58% which is also the maximum rate the PFC can establish. Furthermore, the PFC is charged with setting the rate at the lowest amount necessary to maintain trust solvency while seeking rate stability and recognizing appropriate insurance principles, e.g., including an appropriate margin.

This law also requires OSA to make recommendations to the PFC.

As noted in the **Executive Summary**, based on Milliman's 2024 AVR and the 0.58% premium rate, the WA Cares Fund has an actuarial balance of 3.5% under the base scenario. This equates to \$4.4 billion as of June 30, 2024. Based on this measurement, the program is projected to have sufficient assets to pay full expected benefits and expenses during the entire 75-year projection plus an additional 3.5% of expected program claims for future adverse experience. As shown in Figure 8, which considers future investment risk along with adverse

¹This is the most recent solvency report as of the publication of this report. Please see our WA Cares Fund [webpage](#) for the most recent solvency report.



selection risk of voluntary program components, the range of actuarial balances extends from (14.5%) to 30.2%.

Phase 1 of the RMF is dedicated to information gathering to increase understanding of the covered population and the administration of program benefits. Phases 2 and 3 focus on setting and attaining an appropriate margin, which could include targeting a specific actuarial balance. We believe Phase 1 should last until benefits have been paid for several years.

During Phase 1 we do not believe the premium rate should change. The later phases of the RMF will include targeted risk management discussions on setting an appropriate margin. Additionally, the program's benefits continue to evolve through legislation. Having a clearer understanding of program benefits, program administration, the covered population, and an appropriate reserve will inform premium rate setting discussions. Until that time, we believe the premium rate should remain at 0.58%.

Please note, this remains our recommendation regardless of the outcome of [Senate Joint Resolution 8201](#). This resolution will be on the ballot in the fall of 2025 and if passed by a vote of the people, would lift investment restrictions on WA Cares premium revenue. If passed, it would provide the State Investment Board the flexibility to invest premium revenue in higher risk, higher returning assets classes than allowed under current law. A new investment policy would likely decrease the required premium rate estimated to fund future benefits and expenses. Any impacts from a new investment policy will be reflected in future Milliman program valuations and could support the target margin as part of the RMF.

Additionally, we recommend the PFC clarify the preferred timing for receiving future recommendations. In the event the PFC changes the premium rate, it will be important to understand the steps needed to implement that change, including potential review by the Legislature. These will help ensure there is adequate time for implementation.

OSA prepared these recommendations, however, please refer to Milliman's 2024 AVR for supporting actuarial analysis on the program.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the recommendations contained herein. We encourage you to submit any questions you have on this report to our e-mail address at state.actuary@leg.wa.gov.

Sincerely,

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