

Presentation #23.A

AB 567 ACTUARIAL ANALYSIS AND NEXT STEPS

Preliminary actuarial analysis

*The information contained in this document is preliminary and intended for discussion with the AB 567 Task Force only.
All figures shown in this document are subject to change.*

November 2023

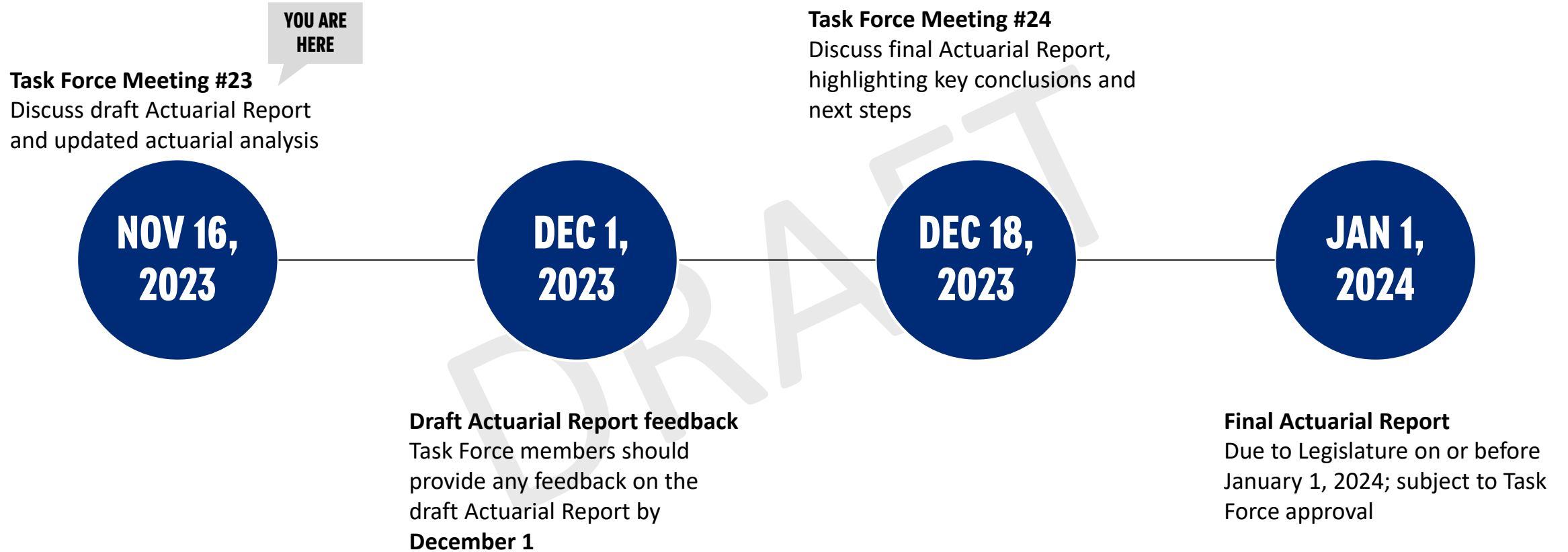
QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

Oliver Wyman was commissioned by the California Department of Insurance (CDI) to provide support associated with assessing the feasibility of developing and implementing a culturally competent statewide insurance program for long-term care services and supports. The primary audience for this report includes stakeholders from the California Department of Insurance, members of the Long-Term Care Insurance Task Force, and members of the general public within the state of California.

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AB 567 TIMELINE



Following its receipt of the Actuarial Report, the Legislature **may or may not** choose to proceed with legislation to establish a program

AB 567 ACTUARIAL ANALYSIS: PRELIMINARY TAX RATES

⚠️ Preliminary estimates are subject to change; the actuarial analysis and accompanying Actuarial Report will be completed by December 2023

| # | Design | Estimated contribution per \$100 of taxable income ^{1,2} | Estimated annual contribution for \$100,000 annual wage ³ | |
|---|---|---|--|-----------------------|
| | | | Employee | Employer ⁴ |
| 1 | Supportive LTC benefits | \$0.60 | \$210 | \$300 |
| 2 | Home care and RCF benefits for older adults | \$1.15 | \$403 | \$575 |
| 3 | Lower-range comprehensive LTSS benefits | \$0.65 | \$228 | \$325 |
| 4 | Mid-range comprehensive LTSS benefits | \$1.60 | \$560 | \$800 |
| 5 | Higher-range comprehensive LTSS benefits | \$3.00 | \$1,050 | \$1,500 |

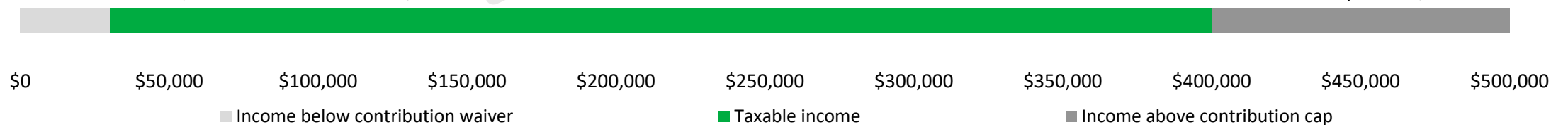
Illustrative application of Program contribution waivers and caps for employees

Annual taxable income = Max (0, Min (annual wage, contribution cap) – contribution waiver)^{1,2,5}

Self-employed individuals are assumed to pay full contribution rate, subject to contribution cap and waiver (i.e., twice the employee contribution, not the sum of employee and employer contributions)

Contribution waiver/exclusion threshold = \$30,000

Contribution cap = \$400,000



1. For all designs, wages/income below \$30,000 are assumed to not be subject to the tax; for Design 2, individuals with wages/income below \$30,000 are assumed to neither contribute nor receive vesting credits

2. For Designs 1, 2, 3, and 5, wages/income above \$400,000 are assumed to not be subject to the tax; there is no contribution cap for Design 4

3. Estimated annual contributions assume a level tax rate; the Task Force recommended a progressive tax rate, but specific progressivity tiers were not defined in the Feasibility Report

4. Contribution waivers/exclusions and caps are assumed to not apply to the employer portion of the Program tax

5. The Program contribution waiver/exclusion and cap are assumed to increase with inflation; see Actuarial Subcommittee Meeting [Presentation #2.A](#) for further detail

AB 567 ACTUARIAL ANALYSIS: FINANCIAL SENSITIVITIES (1 OF 4)

Financial impact quantification of alternative Program designs

⚠ Preliminary estimates are subject to change; the actuarial analysis and accompanying Actuarial Report will be completed by December 2023

| Scenario | Description | Impact on estimated contribution per \$100 of taxable income ^{1,2} | | | | |
|---|--|---|-----------------|-----------------|-----------------|-----------------|
| | | Design 1 | Design 2 | Design 3 | Design 4 | Design 5 |
| Baseline | | \$0.60 | \$1.15 | \$0.65 | \$1.60 | \$3.00 |
| Design 1 monthly maximum benefit (Baseline = \$1,500) | \$1,000 | - \$0.20 | N/A | N/A | N/A | N/A |
| Design 2 approved care settings (Baseline = HCBS and RCF) | Home and community-based services (“HCBS”) only | N/A | - \$0.11 | N/A | N/A | N/A |
| Design 2 elimination period (Baseline = 90 days) | 0-day | N/A | + \$0.26 | N/A | N/A | N/A |
| | 30-day | N/A | + \$0.20 | N/A | N/A | N/A |
| Design 5 vesting period (Baseline = 5 years with partial vesting) | 10-years with partial vesting | N/A | N/A | N/A | N/A | - \$0.35 |
| Portability (Baseline = Partial portability within US under Designs 2 and 3; full portability within US under Designs 1 and 4; full international portability under Design 5) | Full international portability | + \$0.00 | N/A | N/A | + \$0.01 | Baseline |
| | Partial international portability | N/A | + \$0.01 | + \$0.00 | N/A | N/A |

1. For all designs, taxable wages/income below \$30,000 are not subject to the tax; for Design 2, individuals with wages/income below \$30,000 do not contribute and do not receive vesting credits

2. For Designs 1, 2, 3, and 5, taxable wages/income above \$400,000 are not subject to the tax; there is no contribution cap for Design 4

AB 567 ACTUARIAL ANALYSIS: FINANCIAL SENSITIVITIES (2 OF 4)

Financial impact quantification of alternative Program designs

⚠ Preliminary estimates are subject to change; the actuarial analysis and accompanying Actuarial Report will be completed by December 2023

| Scenario | Description | Impact on estimated contribution per \$100 of taxable income ^{1,2} | | | | |
|-------------------------|-------------|---|----------|----------|----------|----------|
| | | Design 1 | Design 2 | Design 3 | Design 4 | Design 5 |
| Baseline | | \$0.60 | \$1.15 | \$0.65 | \$1.60 | \$3.00 |
| Benefit eligibility age | 18+ | Baseline | + \$0.07 | Baseline | Baseline | Baseline |
| | 30+ | - \$0.00 | + \$0.07 | - \$0.00 | - \$0.00 | - \$0.01 |
| | 40+ | - \$0.01 | + \$0.06 | - \$0.01 | - \$0.01 | - \$0.03 |
| | 50+ | - \$0.02 | + \$0.05 | - \$0.02 | - \$0.04 | - \$0.07 |
| | 65+ | - \$0.06 | Baseline | - \$0.05 | - \$0.12 | - \$0.22 |

Key takeaway: Establishing an older benefit eligibility age trades off accessibility of Program benefits for financial feasibility. Estimated tax rate differential for younger eligibility ages (e.g., less than 50) is not significant as the likelihood of needing LTC services decreases substantially at lower ages

| | | | | | | |
|--|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Investment strategy (Baseline = invest in bonds, stocks, and other equities) | Invest in only U.S. Treasuries | + \$0.19 | + \$0.46 | + \$0.22 | + \$0.56 | + \$0.94 |
|--|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|

Key takeaway: Investing in bonds (excluding California municipal bonds), stocks, and other equities would require a state constitutional amendment, which may be challenging to obtain. Estimated tax rates are materially higher absent this state constitutional amendment

1. For all designs, taxable wages/income below \$30,000 are not subject to the tax; for Design 2, individuals with wages/income below \$30,000 do not contribute and do not receive vesting credits

2. For Designs 1, 2, 3, and 5, taxable wages/income above \$400,000 are not subject to the tax; there is no contribution cap for Design 4

AB 567 ACTUARIAL ANALYSIS: FINANCIAL SENSITIVITIES (3 OF 4)

Financial impact quantification of alternative Program designs

⚠ Preliminary estimates are subject to change; the actuarial analysis and accompanying Actuarial Report will be completed by December 2023

| Scenario | Description | Impact on estimated contribution per \$100 of taxable income ^{1,2} | | | | |
|--------------------------------|------------------------------------|---|----------|----------|----------|----------|
| | | Design 1 | Design 2 | Design 3 | Design 4 | Design 5 |
| Baseline | | \$0.60 | \$1.15 | \$0.65 | \$1.60 | \$3.00 |
| Contribution caps ³ | No income cap | -\$0.02 | -\$0.02 | -\$0.01 | Baseline | -\$0.04 |
| | Taxable income capped at \$500,000 | -\$0.00 | -\$0.00 | -\$0.00 | +\$0.02 | +\$0.00 |
| | Taxable income capped at \$400,000 | Baseline | Baseline | Baseline | +\$0.02 | Baseline |
| | Taxable income capped at \$200,000 | +\$0.02 | +\$0.02 | +\$0.01 | +\$0.05 | +\$0.04 |

Key takeaway: Instituting a contribution cap well above the social security limit has a relatively small impact on the estimated tax rate and helps balance the “value proposition” for high earners, which may encourage their support for a Program

| | | | | | | |
|--|---|---------|---------|---------|---------|---------|
| Contribution waivers and exclusions (Baseline = \$30,000) | \$20,000 contributions waiver threshold | -\$0.04 | +\$0.05 | -\$0.05 | -\$0.12 | -\$0.23 |
| | \$35,000 contributions waiver threshold | +\$0.02 | -\$0.16 | +\$0.03 | +\$0.06 | +\$0.12 |
| | \$50,000 contributions waiver threshold | +\$0.09 | -\$0.29 | +\$0.10 | +\$0.24 | +\$0.46 |

Key takeaway: Adjusting the contribution waiver threshold/exclusion has a material impact on the estimated tax rate as it impacts all Program enrollees. These impacts would increase further if the employer contribution were subject to contribution waivers

1. For all designs, taxable wages/income below \$30,000 are not subject to the tax; for Design 2, individuals with wages/income below \$30,000 do not contribute and do not receive vesting credits

2. For Designs 1, 2, 3, and 5, taxable wages/income above \$400,000 are not subject to the tax; there is no contribution cap for Design 4

3. Impact on estimated contribution per \$100 of taxable income will likely increase under a progressive tax rate structure

AB 567 ACTUARIAL ANALYSIS: FINANCIAL SENSITIVITIES (4 OF 4)

Financial impact quantification of alternative Program designs

⚠ Preliminary estimates are subject to change; the actuarial analysis and accompanying Actuarial Report will be completed by December 2023

| Scenario | Description | Impact on estimated contribution per \$100 of taxable income ^{1,2} | | | | |
|--|---|---|----------|----------|----------|----------|
| | | Design 1 | Design 2 | Design 3 | Design 4 | Design 5 |
| Baseline | | \$0.60 | \$1.15 | \$0.65 | \$1.60 | \$3.00 |
| Private insurance exemption ³ | No opt-out | Baseline | - \$0.02 | - \$0.02 | - \$0.09 | - \$0.13 |
| | Opt-out on or before Program effective date ⁴ | + \$0.02 | Baseline | Baseline | Baseline | Baseline |
| | Opt-out 1-year prior to Program effective date ⁴ | N/A | - \$0.00 | - \$0.00 | - \$0.02 | - \$0.03 |

Key takeaway: Allowing a one-time opt-out is not anticipated to substantially impact Program solvency; however, the impact is dependent on the demographics of those who opt out and will increase with a progressive tax rate structure and higher contribution caps

| | | | | | | |
|---|--|----------|----------|----------|----------|----------|
| Employer contributions ⁵ (Baseline = 50% employer contribution) | 0% employer contribution (100% employee contribution) | + \$0.23 | + \$0.40 | + \$0.26 | + \$0.56 | + \$1.17 |
| | 25% employer contribution (75% employee contribution) | + \$0.10 | + \$0.17 | + \$0.11 | + \$0.24 | + \$0.49 |

Key takeaway: Reducing employer contributions may encourage employers to support a Program but has a material impact on the estimated tax rates. The significance of this impact is driven by our baseline assumption that contribution caps/waivers do not apply to employer contributions

1. For all designs, taxable wages/income below \$30,000 are not subject to the tax; for Design 2, individuals with wages/income below \$30,000 do not contribute and do not receive vesting credits

2. For Designs 1, 2, 3, and 5, taxable wages/income above \$400,000 are not subject to the tax; there is no contribution cap for Design 4

3. Impact on estimated contribution per \$100 of taxable income will likely increase under a progressive tax rate structure

4. Program effective date is assumed to be the beginning of the calendar year following the Governor's approval of proposed legislation

5. Contribution waivers and caps are assumed not to apply to the employer portion of the tax rate. Oliver Wyman is quantifying the financial impact of maintaining the contribution cap for the employer portion of the tax rate

AB 567 NEXT STEPS

The Task Force recommended several next steps following completion of the Actuarial Report

Some of the recommended next steps include:

Additional analyses

Requested analyses include several additional financial sensitivities¹ and estimation of contribution rates required for current retirees to participate



Coordination and interaction

Define the insurance products eligible for either opt out or reduced Program contributions (e.g., type of insurance, minimum benefits, etc.)



Separate working groups

Establish six separate working groups to examine a range of topics that could influence certain aspects of the Program



Financing

Explore potential efforts required to support voter-approved amendment to state constitution to allow investment in bonds, stocks, and other equities



Next steps related to coordination and interaction, benefits and services, administration, and the LTSS workforce were also proposed²

¹ Additional financial sensitivities include removing shared benefit pool from applicable designs, adding PACE coverage to Design 2, applying the contribution waiver to employer contributions

² Refer to Appendices B and D of the draft Actuarial Report for further information regarding the outstanding next steps recommended by the Task Force

APPENDIX

AB 567 PROGRAM DESIGN OPTIONS: OVERVIEW

Five Program designs were recommended by the Task Force

| # | Design | Description |
|---|---|--|
| 1 | Supportive LTC benefits | <ul style="list-style-type: none">• \$36,000 in supportive LTC benefits for Californians ages 18+• Supportive services include adult day care, caregiver support, meal delivery, transportation, and minor home modifications |
| 2 | Home care and residential care facility (“RCF”) benefits for older adults | <ul style="list-style-type: none">• \$110,400 in targeted benefits for Californians ages 65+• Covered services are the same as Design 1, along with formal home care and care in an RCF• Carve-out for individuals with income below a specified threshold to limit duplication with Medi-Cal, California’s Medicaid Program |
| 3 | Lower-range comprehensive long-term service and support (“LTSS”) benefits | <ul style="list-style-type: none">• \$36,000 in comprehensive benefits for Californians ages 18+• Covered services are the same as Design 2 |
| 4 | Mid-range comprehensive LTSS benefits | <ul style="list-style-type: none">• \$81,000 in comprehensive benefits for Californians ages 18+• Covered services include those from Design 3, along with care in a skilled nursing facility |
| 5 | Higher-range comprehensive LTSS benefits | <ul style="list-style-type: none">• \$144,000 in comprehensive benefits for Californians ages 18+• Covered services are the same as Design 4 |

AB 567 PROGRAM DESIGN OPTIONS: DETAILS

Refer to Section 2 of the AB 567 [Feasibility Report](#) for further information regarding the Task Force’s recommended Program designs

| Design element | Design 1 | Design 2 | Design 3 | Design 4 | Design 5 |
|--|--|--|---|--|--|
| Benefit period | 2 years | | 1 year | 18 months | 2 years |
| Monthly maximum benefit | \$1,500 / month | \$4,600 / month ¹ | \$3,000 / month ¹ | \$4,500 / month ¹ | \$6,000 / month ¹ |
| Elimination period (“EP”) | No EP | 90-day EP | | No EP | |
| Benefit type | Reimbursement only | Reimbursement with 50% cash alternative ² | Reimbursement only | Reimbursement with 50% cash alternative ² | |
| Coverage type | Individual | | | Shared pool with spouses or domestic partners | |
| Vesting criteria | 5 years with partial vesting after 3 years | | 10 years with partial vesting after 5 years | 5 years with partial vesting after 3 years and voluntary top-up ³ | |
| Portability ⁴ | Full domestic portability | Partial domestic portability (grade to 50% over 5 years) | | Full domestic portability | Full international portability |
| Intergenerational equity | N/A | Grade up benefits over first 20 years of Program | | | |
| Contribution caps ⁵ | No contributions on income above \$400,000 | | | No cap | No contributions on income above \$400,000 |
| Contribution waivers and exclusions ⁵ | No contributions on income below \$30,000 | No contributions or vesting credit if income is below \$30,000 | No contributions on income below \$30,000 | | |
| Private insurance coordination | N/A | Opt-out option if purchased prior to Program effective date and reduced contributions if purchased after | | | |

1. The Task Force recommended removing the monthly benefit maximum on Designs 2 through 5 for select higher-cost services, including durable medical equipment and home modifications; see Task Force Meeting [Presentation #20.A](#) for additional detail

2. The Task Force recommended that beneficiaries be permitted to change their benefit type one time (e.g., switch from cash to reimbursement); see Task Force Meeting [Presentation #20.A](#) for additional detail








3. The voluntary option to top-up benefits is not explicitly modeled; see Actuarial Subcommittee Meeting [Presentation #2.A](#) for a preliminary list of modeling simplifications

4. Based on the preliminary actuarial analysis, the Task Force recommended that international portability be included in all five Program designs; see Task Force Meeting [Presentation #22.A](#) for additional detail

5. Based on the preliminary actuarial analysis, the Task Force voted to retain \$400,000 and \$30,000 as the contribution cap and contribution waiver/exclusion thresholds, respectively; see Task Force Meeting [Presentation #22.A](#) for additional detail

AB 567 PROGRAM DESIGN OPTIONS: OTHER KEY FEATURES

Several Program design elements received broad support from the Task Force and are reflected in all five recommended designs

| | | |
|---|-------------------------------------|---|
|  | Program structure | <ul style="list-style-type: none">• Front-end coverage (benefits generally payable near beginning of LTSS need) |
|  | Benefit eligibility criteria | <ul style="list-style-type: none">• 2 of 6 activities of daily living (ADLs) or severe cognitive impairment<ul style="list-style-type: none">– Consistent with benefit eligibility criteria used for most private LTC insurance products |
|  | Family caregiver support | <ul style="list-style-type: none">• Reimbursement to informal or family caregivers subject to completion of certified caregiver training<ul style="list-style-type: none">– Under Designs 2, 4, and 5, cash benefits could be used to pay caregivers who have not completed required training |
|  | Benefit inflation | <ul style="list-style-type: none">• Benefit increases based on a consumer price index<ul style="list-style-type: none">– Specific index is yet to be determined• Evaluated annually but not automatically applied (except for Design 5) |
|  | Investment strategy | <ul style="list-style-type: none">• Invest in U.S. treasuries, bonds, stocks, and other equities (state constitutional amendment required) |
|  | Intergenerational equity | <ul style="list-style-type: none">• Grade up Program benefits over the first 20 years (except for Design 1) |
|  | Medi-Cal interaction | <ul style="list-style-type: none">• Program pays <u>before</u> Medi-Cal and should not influence Medi-Cal eligibility |

AB 567 ACTUARIAL ANALYSIS: CALIFORNIANS COVERED (1 OF 3)

Methodology and Design 1

METHODOLOGY

| Category | Definition |
|---|---|
| Vesting and age requirements met¹ | <ul style="list-style-type: none"> Program enrollees who have satisfied vesting requirements and meet the benefit eligibility age |
| Vesting and age requirements not met | <ul style="list-style-type: none"> California residents age 18 or older who have not satisfied vesting requirements² (including those who are unemployed; i.e., not on payroll and not self-employed) [Design 2 only] California residents less than age 65 who have satisfied vesting requirements² but do not meet the benefit eligibility age³ |
| Exclusions (e.g., current retirees) | <ul style="list-style-type: none"> California residents age 75 or older as of the Program effective date (assumed to be retired for modeling purposes) Individuals age 75 or older when they immigrate to California (after Program effective date) (assumed to be retired for modeling purposes) [Design 2 only] California residents age 18 or older who are below the contribution exclusion threshold⁴ |
| Below age 18 | <ul style="list-style-type: none"> California residents younger than age 18 |

1. The “vesting and age requirements met” category does not reflect whether an individual satisfies the benefit eligibility criteria (i.e., inability to perform 2 of 6 activities of daily living for at least 90 days or severe cognitive impairment)

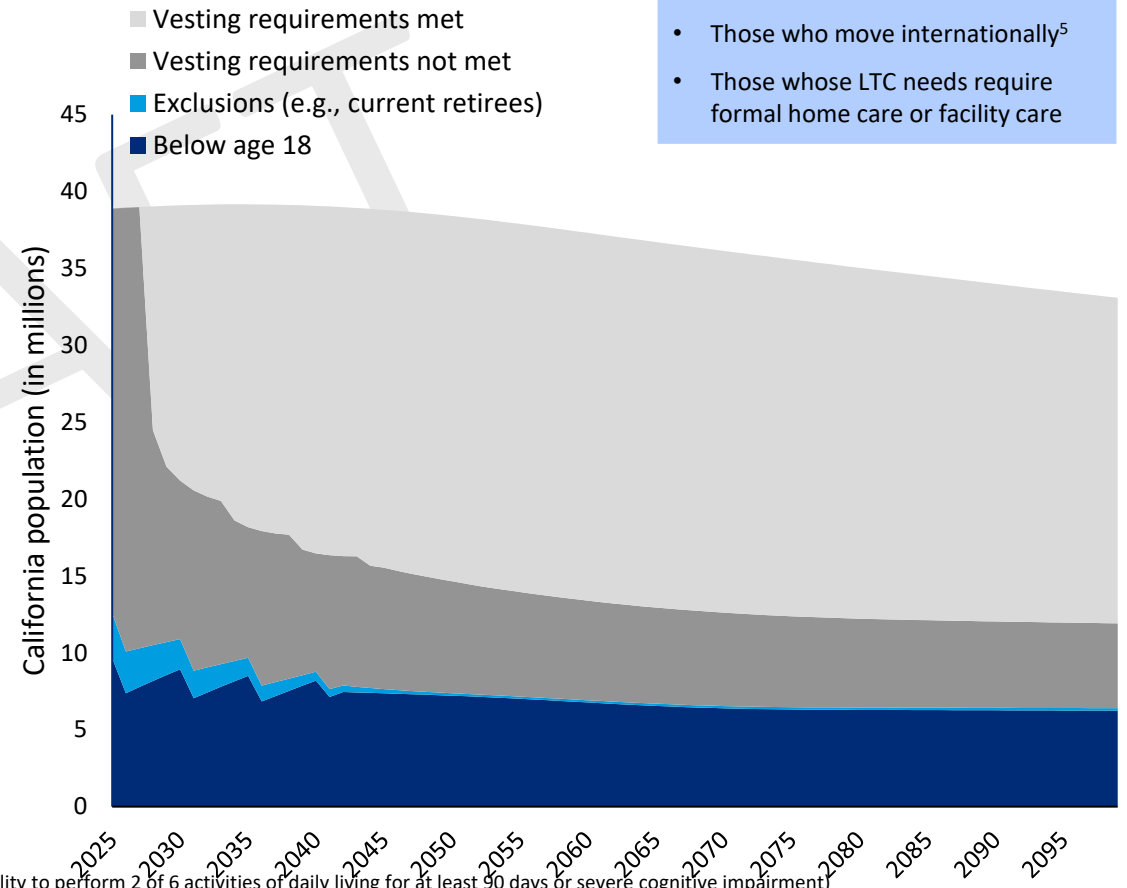
2. Individuals must contribute for 5 or 10 years to be eligible for full Program benefits, with partial benefits available after 3 or 5 years, depending on the design. Individuals must work at least 500 hours annually to satisfy the vesting criteria

3. The recommended benefit eligibility age is 18+ for Designs 1, 3, 4, and 5, and 65+ for Design 2

4. A \$30,000 contribution waiver/exclusion threshold is assumed as the baseline for modeling purposes; the specific waiver/exclusion threshold has yet to be determined (see [Presentation #2.A](#) from Actuarial Subcommittee Meeting #2 for additional detail)

5. Based on the preliminary actuarial analysis, the Task Force recommended that international portability be included in all five Program designs; see Task Force Meeting [Presentation #22.A](#) for additional detail

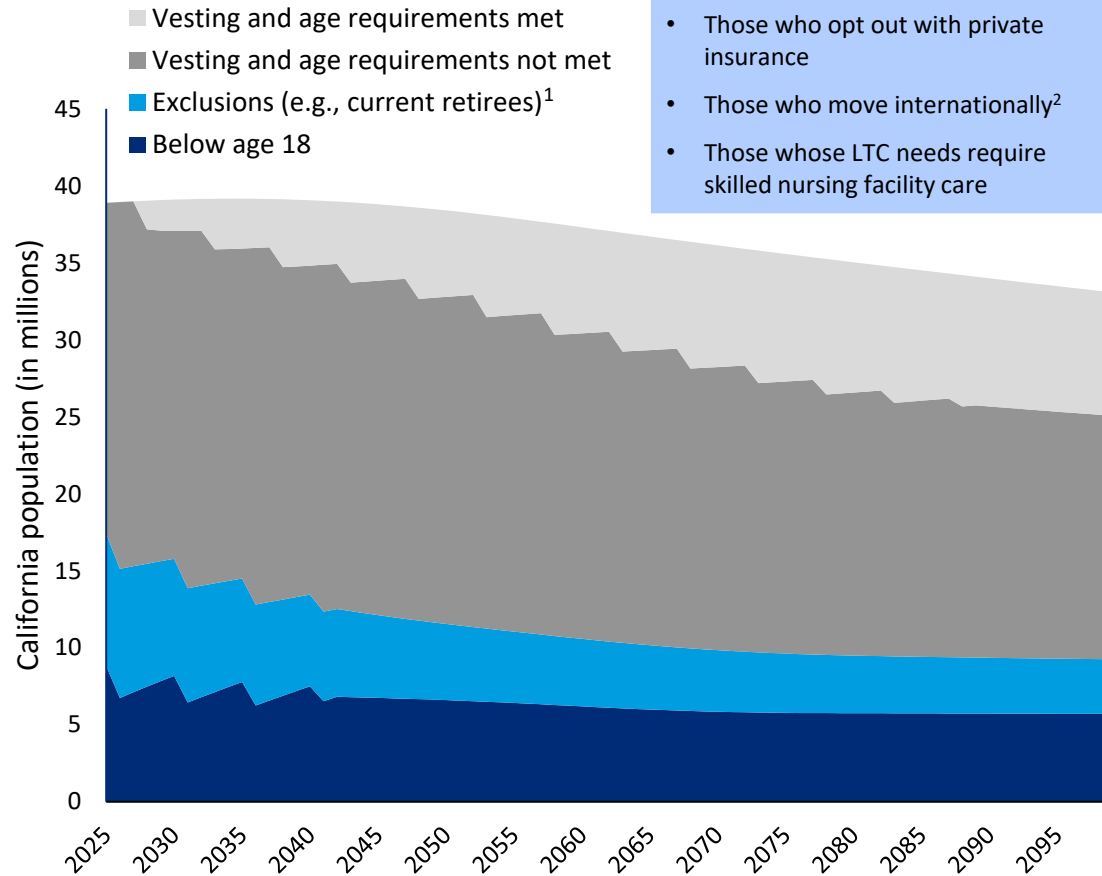
DESIGN 1



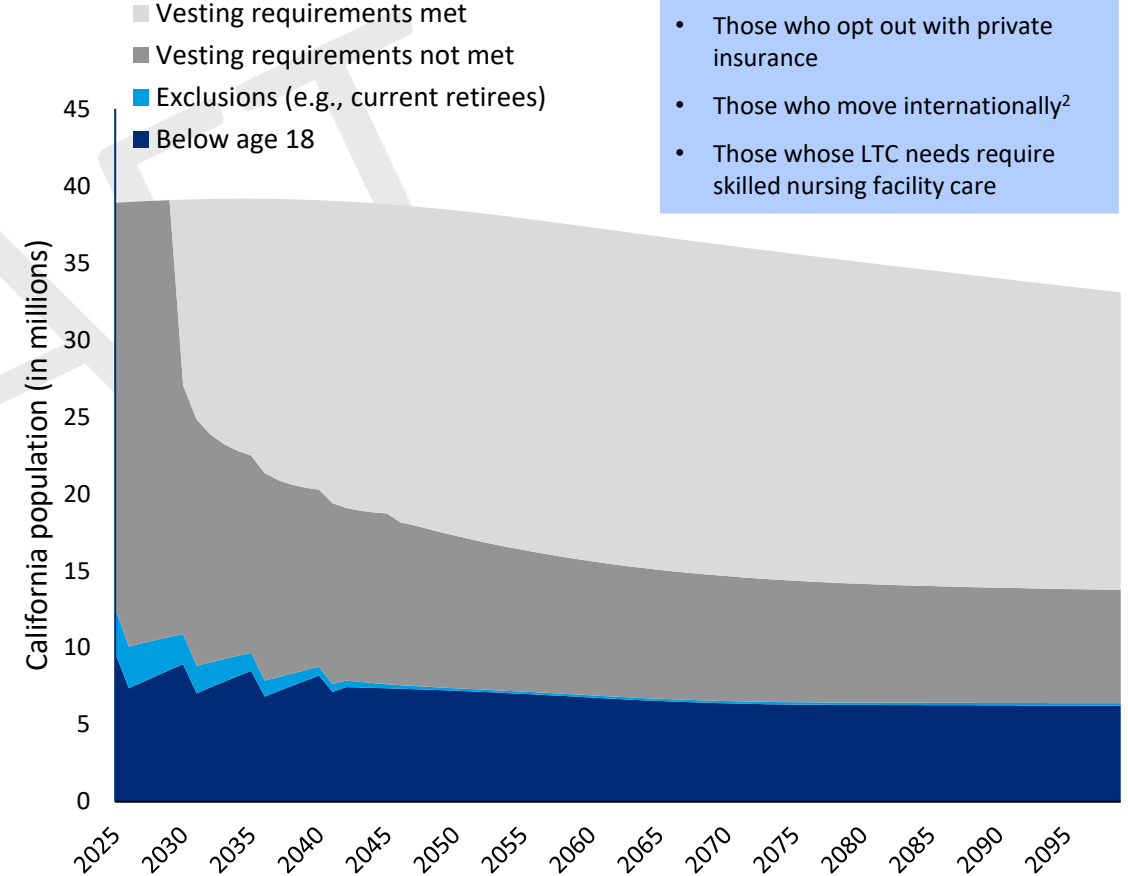
AB 567 ACTUARIAL ANALYSIS: CALIFORNIANS COVERED (2 OF 3)

Designs 2 and 3

DESIGN 2



DESIGN 3



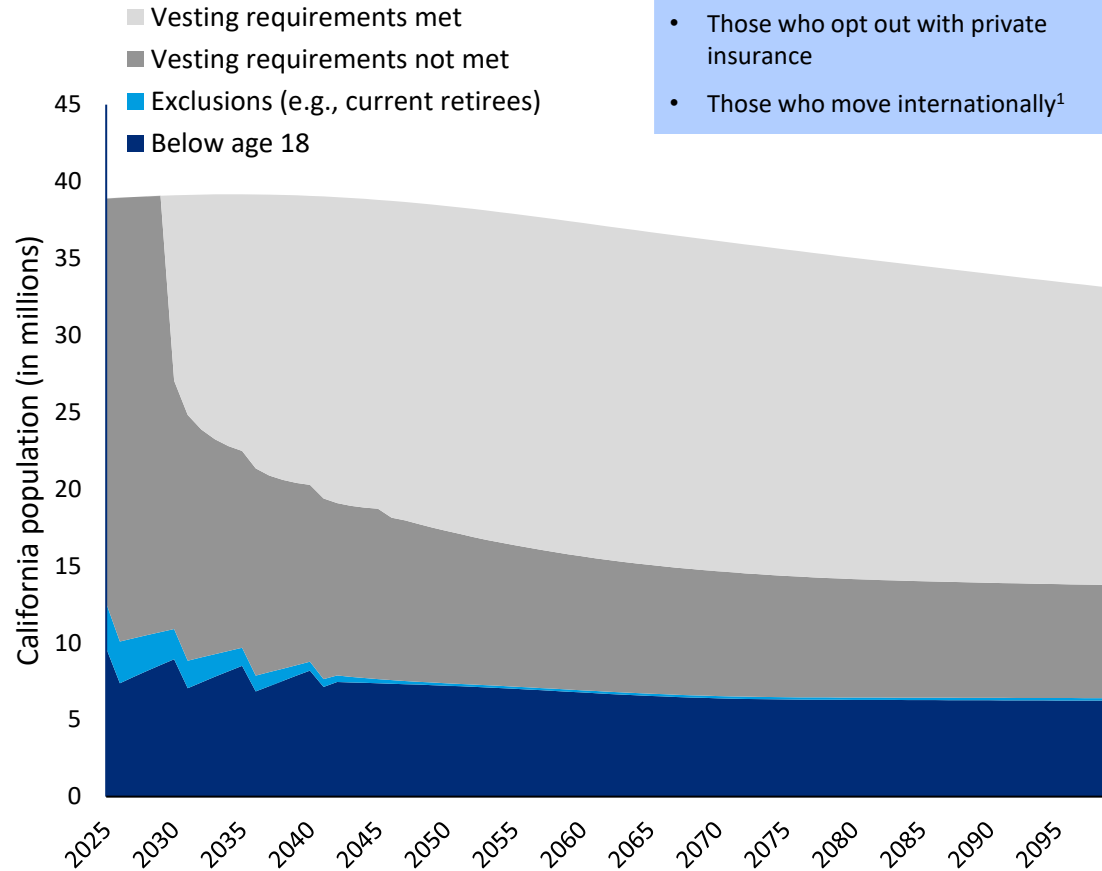
1. Exclusions cohort for Design 2 also includes individuals with wages/income below the specified threshold who do not contribute and do not receive vesting credits

2. Based on the preliminary actuarial analysis, the Task Force recommended that international portability be included in all five Program designs; see Task Force Meeting [Presentation #22.A](#) for additional detail

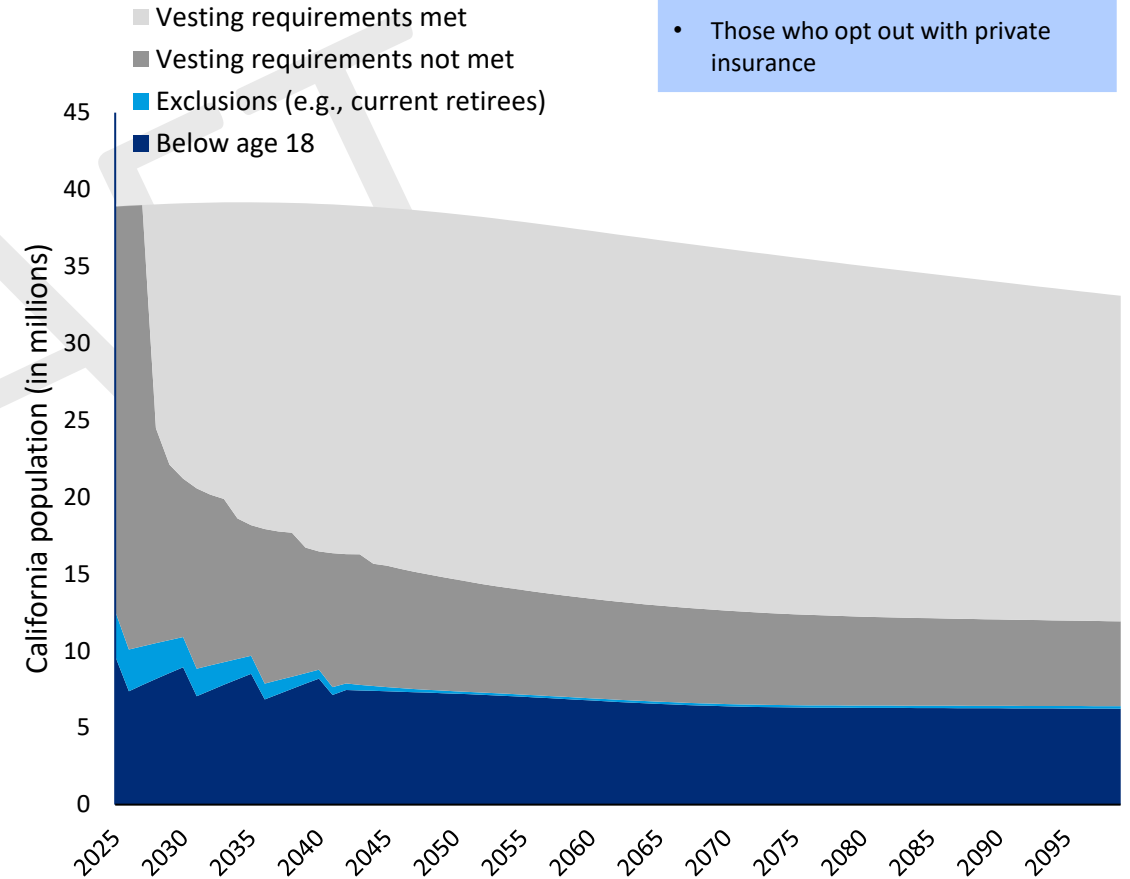
AB 567 ACTUARIAL ANALYSIS: CALIFORNIANS COVERED (3 OF 3)

Designs 4 and 5

DESIGN 4



DESIGN 5



1. Based on the preliminary actuarial analysis, the Task Force recommended that international portability be included in all five Program designs; see Task Force Meeting [Presentation #22.A](#) for additional detail



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