Prepared for the California Department of Insurance

Presentation #8.E

OTHER FINANCING AND SUSTAINABILITY CONSIDERATIONS

Additional financing considerations for a statewide long-term care (LTC) insurance program in California

February 2022

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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01

ADDITIONAL FINANCING OPTIONS

PROVIDER TAXES

Medicaid provider taxes are currently imposed in all 50 states (except Alaska) and the District of Columbia

Nationwide

- Provider taxes (in some form) are almost universally used to help states fund Medicaid
- For provider tax revenues to be used to fund a state's share of Medicaid spending (i.e., subject to federal match), taxes must be uniform and broad-based unless the state obtains a CMS waiver
- States cannot collect provider tax revenue that exceeds 6% of annual aggregate net revenue for the provider type

California

- In California, provider taxes are imposed on Skilled Nursing Facilities (SNFs), inpatient hospitals and Managed Care Organizations (MCOs)
- For example, Assembly Bill 1629 enacted the SNF Quality Assurance Fee (QAF) program[1]
  – The QAF is based on an annual rate multiplied by the number of resident days each month
  – For 2021, QAF rates are $15.19 for less than 100,000 resident days and $14.54 for 100,000 or more resident days
  – Resident days are the number of days a patient resides at the SNF

Statewide LTC program

- Revenue collected from provider taxes may already be spoken for by Medi-Cal and other programs
- For a statewide LTC program to be financed via provider taxes, tax rates may need to be increased (subject to federal limits) and/or new taxes may need to be imposed on providers not currently subject to provider taxes

[1] https://www.dhcs.ca.gov/provgovpart/Pages/SkilledNursingFacilities.aspx

PREMIUM CONTRIBUTIONS

Can be collected as a singular revenue source or combined with other financing options

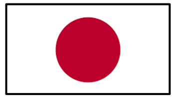
Relevant examples from other programs

Canada

- The Ontario Health Premium is paid by Ontario residents through the personal income tax system
  - Premiums help fund Ontario's health services
  - Premiums range from $0 for individuals with taxable income of $20,000 or less to $900 for individuals with taxable income greater than $200,600

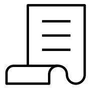
Germany

- Pensioners are required to pay full contribution rate (i.e., sum of the employee and employer rates) as premium



Japan

- There are modest income-related premiums and copayments for those aged 65+
- The old-age premiums are structured similarly to Medicare Part B premiums, albeit at much lower levels



The CLASS Act

(repealed in 2013)

- Workers that signed up for the (voluntary) program would have paid a monthly premium in exchange for a daily benefit
  - Estimates of the average monthly premium varied from $123 to $240
  - Premiums would have been deducted automatically by employers for those who opted to participate

Illustrative cost benchmarks

Program revenue source alternatives[1]	Estimated (multiplicative) impact on cost
Payroll tax on all wages for individuals aged 18+	N/A
Additional $25 monthly premium for individuals aged 65+	- 7.6%
Additional $50 monthly premium for individuals aged 65+	- 13.6%

Source: 2020 Milliman CA LTSS Feasibility Study

[1] Under these alternatives, vested individuals (both disabled and non-disabled) must pay a monthly premium beginning at age 65 and continuing until benefits are exhausted or the individual dies

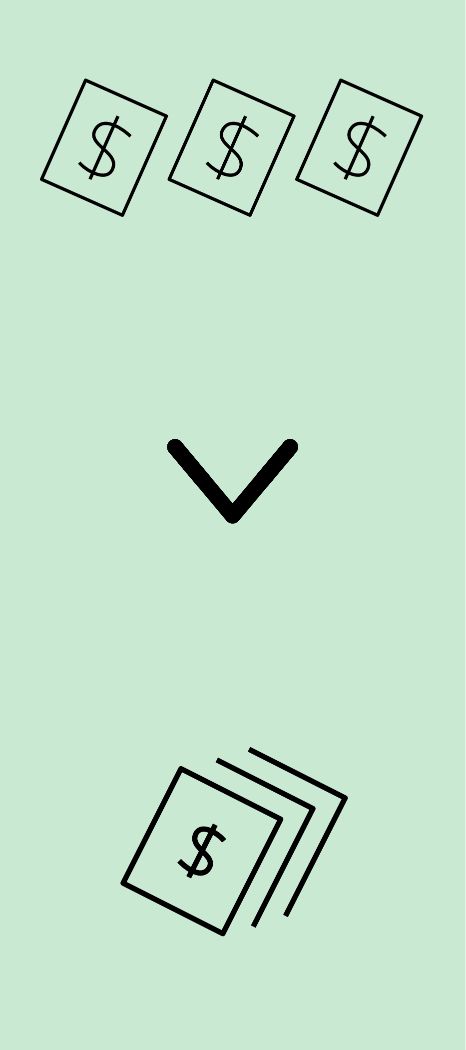
HYBRID FINANCING OPTIONS

A non-exhaustive listing of potential hybrid payroll tax alternatives

Option	Pros	Cons
Tax applied to all income, potentially up to a limit, with offsets for payroll tax collections	• Could allow eligibility for individuals unable to vest via payroll tax contributions (e.g., spouses of employees) • Tax revenue automatically increases with inflation in income • Tax base captures non-wage income such as pensions, investment returns, business income, capital gains, residuals, and royalties	• Contributions for high-income individuals may exceed program benefits (partially mitigated if limit imposed) • Increases administration complexity, especially if a limit is imposed • Individuals may leave California to go to a state with lower state income taxes, particularly if they can collect income while living outside California
Insurance premiums for persons aged 65+ with offsets for individuals still working and paying payroll taxes	• Could allow eligibility for individuals unable to vest via payroll tax contributions (e.g., near-retirees)	• Difficult to collect unless structured as a withholding from pension (like an income tax)
Voluntary premiums for individuals not subject to payroll or income taxes	• Could allow eligibility for individuals that cannot otherwise vest	• Participation may be limited due to overlap with Medi-Cal • High risk of anti-selection as those who choose to pay premiums are more likely to need LTC
No payroll tax (or a reduced payroll tax) before a certain age (e.g., age 40)	• May improve affordability as other expenses (e.g., childcare) may decrease over time while wages may increase with age and workforce experience • More aligned with timing of LTC need, which is not typically top-of-mind for younger individuals	• Contribution rate would need to be higher for those paying full amount • Increases administrative complexity • Individuals who need LTC at a younger age than average may not be able to vest
Payroll tax that increases at a certain age (e.g., age 55)	• May improve affordability as other expenses (e.g., childcare) may decrease over time while wages may increase with age and workforce experience	• Increases administrative complexity

STACKING MULTIPLE TAXES

It may be possible to stack multiple types of taxes to fund a statewide LTC insurance program



Stacked taxes exist in California

- There are multiple tax rates on cigarettes and multiple sales tax rates
- Mental Health Services Tax (MHST) was layered on top of existing personal income tax structure (2004)
- There is additional complexity if funds from stacked taxes feed into a trust
  - MHST was set up such that revenue is distinguishable from personal income tax revenues and can be transferred into the Mental Health Services Fund

Key considerations when stacking taxes

- Ensure that stacking a new rate on top of an existing structure will not harm beneficiaries of the existing structure
  - Higher tax rates on an activity tend to reduce demand for that activity (this is the “harm”)
  - Backfill provisions have been used to ensure beneficiaries of existing rates are not harmed by new taxes
  - To the extent a backfill is necessary, revenue potential for the tax rate may be reduced
- Ensure overall level of taxes for the “activity” is not so high as to significantly impact the activity
  - If top income tax rates are increased too much, high-income individuals may leave California
  - This would curtail the ability to raise significant revenue from the “activity” (taxable income earned by high-income taxpayers)

02

ADDITIONAL FEDERAL DEMONSTRATION WAIVER CONSIDERATIONS

INTERACTION BETWEEN MEDI-CAL AND A STATEWIDE LTC INSURANCE PROGRAM

Funding

- Medi-Cal is jointly funded with state, federal, and other non-federal funds
- A new statewide LTC insurance program in California would potentially be wholly funded by state funds

Costs

- Medi-Cal is a payer of last resort
- A new LTC program could result in lower Medi-Cal costs for some Medi-Cal beneficiaries because it would pay for their LTSS needs first
- Lowering Medi-Cal costs would create state and federal Medi-Cal savings; however, shifting LTSS costs for Medi-Cal beneficiaries to a new LTC program may not be cost-effective as there is no federal match on spending

Savings

- Federal funding would potentially be lost for any Medi-Cal LTSS expenditures shifted to a new LTC program unless California negotiates an agreement with the federal government to share federal savings with the state

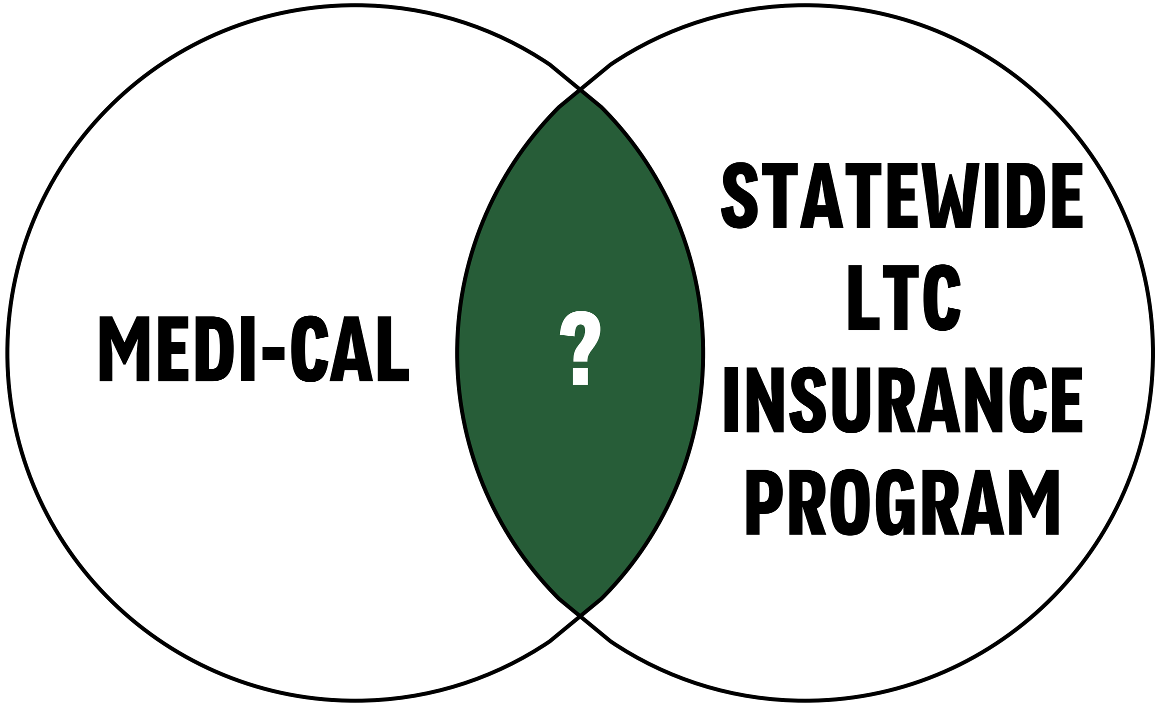
WA Cares Fund:

- WA Cares Fund legislation requires the state to apply for a federal demonstration waiver
- This waiver would allow the state to share in savings generated in the federal match for Medicaid due to the operation of the WA Cares Fund program
- Washington is in the process of pursuing its federal demonstration waiver; the details have not yet been released

COULD A NEW STATEWIDE LTC PROGRAM AND MEDI-CAL BE MUTUALLY EXCLUSIVE?

A federal demonstration waiver would not be needed if a new statewide LTC insurance program and Medi-Cal were mutually exclusive (i.e., if Medi-Cal eligible individuals were not also covered by the new LTC program)

- Excluding Medi-Cal eligible individuals may not be feasible or equitable
- As noted in our Task Force Meeting #4 presentation:
  – Medi-Cal eligibility may change over time
  – Individuals may prefer to be part of a new LTC program (vs. relying on Medi-Cal)
  – Carving out Medi-Cal eligible individuals from a new LTC program may mean they do not have access to the same range of facilities or services



- We cannot reliably predict whether an individual will be eligible for Medi-Cal when their need for LTSS arises
- Other options to potentially achieve mutually exclusive programs:
  – Exclude (or refund) *contributions* for potential Medi-Cal beneficiaries
  – Exclude future Medi-Cal beneficiaries from receiving *benefits* under the statewide LTC insurance program
- Exclusions would need to comply with the requirement that Medi-Cal be the payer of last resort

03

SUSTAINABILITY CONSIDERATIONS

GENERALIZED FUNDING EQUATION

Projected program inflows must equal projected program outflows for the program to be sustainable

For reference, the WA Cares Fund is targeting to **keep the administrative load under 7%** (3.5% of premiums collected and 3.5% of benefits paid) after startup (i.e., 2025+)[2]

Inflow

PROGRAM CONTRIBUTIONS + INVESTMENT INCOME = PROGRAM BENEFITS + ADMINISTRATION EXPENSES

Outflow

Based on Milliman's analysis, **first year funding estimates for a statewide LTC program in CA range from $9 billion to $29 billion** depending on program design (the corresponding 75-year payroll tax is 0.70% to 2.36%)[1]

Regardless of revenue source or funding approach, continuous monitoring of program solvency is critical to ensure sustainability

[1] https://www.dhcs.ca.gov/provgovpart/Documents/CA-LTSS-Feasibility-Study-Additional-Modeling.pdf

[2] https://www.dshs.wa.gov/sites/default/files/ALTSA/stakeholders/documents/LTSS/LTSS%20Trust%20Commission%20Agency%20Administrative%20Expenses%20Report%202021-11-15.pdf

POSSIBLE FUNDING APPROACHES

Pay-as-you-go (PAYGO)

- Current contributions are used to fund current benefits, and future benefits for current contributors are paid from future contributions
  - Limited to no investment income
  - Higher contribution rate required
  - Ex: Medi-Cal, most LTSS programs abroad
- Does not require vesting
  - Covering everyone immediately may make PAYGO programs more politically viable
- Highly dependent on interaction between number of contributors and number of beneficiaries at any given point in time
- Sustainability is more challenging with an aging population

VS

Pre-funded

- Current contributions are invested, and future benefits are paid from program assets
  - Potentially significant investment income
  - Allows for lower contribution rate
  - Ex: private LTC insurance
- Requires vesting to establish funds necessary to pay out benefits for eligible individuals
  - Cohorts unable to meet vesting requirements may require exceptions or be excluded from program
  - May be less politically viable if certain cohorts (e.g., current seniors) are not eligible for benefits
  - Medi-Cal and/or other programs may cover benefits for excluded cohorts
- More time to adjust for shifts in demographics

A hybrid approach is also possible (e.g., WA Cares Fund will initially be pre-funded and then transition to PAYGO)

OTHER FUNDING CONSIDERATIONS

Hybrid funding approaches

- PAYGO with portion of contributions set aside to pay for future cohorts
- PAYGO with initial (limited) pre-funding period (e.g., WA Cares Fund)
- PAYGO and pre-funding used for different populations (ex: Germany's LTSS Program)
- May be more complex to administer
- Can provide immediate coverage for those who currently need LTSS; pre-funding can provide more generous benefits for those who will need LTSS in the future

Contribution rate

- Contribution rate structure options:
  - Level over a specified period
  - Varied (e.g., annually or step-rated)
  - Level contribution rate developed as average rate required over time creates inherent pre-funding
- Flexibility in contribution rate structure may be contingent on financing mechanism(s)
- Could include margin for potentially unfavorable future experience in contribution rate development

Investment strategies

- As investment income increases, required program contributions decrease
- To achieve meaningful investment income, investment strategy would likely need to include stocks
- California has a Constitutional provision that prohibits the state from investing public funds in stock[1]; constitutional amendment would be required to make an exception (e.g., public pension)
- For WA Cares Fund, Milliman estimated a 6% to 16% (multiplicative) decrease in payroll tax under an investment strategy that included stocks and bonds (vs. only U.S. Treasuries)[2]

[1] Article XVI, Section 17 of the California Constitution
[2] Milliman 2020 WA Cares Fund Trust Actuarial Study (https://leg.wa.gov/osa/additionalservices/Documents/Milliman2020WALTSSTrustActuarial%20Study.pdf)

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