

AB 567 ACTUARIAL SUBCOMMITTEE OVERVIEW

Scope, approach, and workplan

March 2023

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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.

Oliver Wyman shall not have any liability to any third party in respect of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein.

The opinions expressed herein are valid only for the purpose stated herein and as of the date hereof. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data are from sources Oliver Wyman deems to be reliable; however, Oliver Wyman makes no representation as to the accuracy or completeness of such information and has accepted the information without further verification. No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

ACTUARIAL SUBCOMMITTEE: OVERVIEW AND SCOPE

The Actuarial Subcommittee serves as an advisory group to Oliver Wyman’s actuarial analysis

Members	<ul style="list-style-type: none">• The Actuarial Subcommittee is comprised of the following five Long Term Care Insurance Task Force Members (“Task Force”):<ul style="list-style-type: none">– Susan Bernard (chair): California Insurance Commissioner Ricardo Lara designee– Jamala Arland: Representative from the LTC insurance industry– Laurel Lucia: Representative of a non-government health policy expert– Parag Shah: Certified actuary with expertise in LTC insurance– Brandi Wolf: Representative of an employee organization that represents LTC workers• Actuarial staff from the California Department of Insurance also participate in Actuarial Subcommittee meetings
Responsibilities	<ul style="list-style-type: none">• Serve as an advisory group to Oliver Wyman’s actuarial analysis<ul style="list-style-type: none">– Share perspectives on Oliver Wyman’s data sources, modelling methodologies, and actuarial assumptions– Provide feedback and offer suggestions throughout actuarial modeling process– Review actuarial analysis for reasonability and comprehensiveness• Assist with actuarial analysis status updates to full Task Force (during quarterly meetings)• Perform initial review of Oliver Wyman’s Actuarial Report (prior to full Task Force review)

The Actuarial Report will be considered a Statement of Actuarial Opinion from Oliver Wyman’s actuarial staff (not from the Actuarial Subcommittee)

ACTUARIAL SUBCOMMITTEE: APPROACH AND WORKPLAN

The Actuarial Subcommittee serves as an advisory group to Oliver Wyman's actuarial analysis

Approach and workplan

- Oliver Wyman will share updates on the following information with the Actuarial Subcommittee :
 - Data sources
 - Assumptions (variations, methodologies, and approaches)
 - Modeling (approaches and simplifications)
- Preliminary assumptions and results will not be shared with the Actuarial Subcommittee (and the general public) to limit potential misuse or misinterpretation of incomplete or non-final information
 - The presentation of preliminary actuarial results to the full Task Force is scheduled for June 15, 2023
- To facilitate active discussion during future Actuarial Subcommittee meetings, we will deploy the following approach:
 - Oliver Wyman will share content with the Actuarial Subcommittee several weeks in advance
 - Actuarial Subcommittee members will review and share preliminary feedback with the Oliver Wyman team before each meeting
 - Actuarial Subcommittee feedback will be anonymous and gathered by email (in lieu of questionnaires)
 - **To ensure compliance with Bagley-Keene, Actuarial Subcommittee members will provide feedback only to Oliver Wyman**

RECAP OF SUBCOMMITTEE MEETING 1: INITIAL DATA SOURCES AND MODELING PLAN

Information is preliminary, subject to change, and intended for discussion with the AB 567 Task Force only

Data sources	<ul style="list-style-type: none">• Population and economic data sourced from California’s Department of Finance (including Reports P-1C and P-CC)<ul style="list-style-type: none">– Assumptions include: starting population, population migration, wage/income distribution, and wage/income inflation• Investment data sourced from industry benchmarks, long-term Oliver Wyman studies, and historical average S&P 500 returns<ul style="list-style-type: none">– Assumptions include: investment expense, credit spreads, asset default, equity returns, and asset allocations
Modeling plan	<ul style="list-style-type: none">• Model input data will be stratified by:<ul style="list-style-type: none">– Gender– Age band (5-year increments, from 0 to “99+”)– Income type (wage or self-employed)– Wage/income bands– Entry year (yearly, from 2024 through 2099)¹• Program projection period will be 75 years, beginning on January 1, 2025<ul style="list-style-type: none">– A 75-year projection period is standard for determining the actuarial balance of a public insurance program²• Model will solve for a level payroll tax rate for the wage-employed and a level income tax rate for the self-employed<ul style="list-style-type: none">– Calculation accounts for lower-income waivers and higher-income cap– Calculation allows for employer/employee portion flexibility• Illustrative tax progressivity constructs will be assessed

1. Reflects current population and new entrants (i.e., births, immigration); population exits (i.e., deaths, benefit exhaustions, and emigration) will be modeled via actuarial assumptions

2. As established by the Social Security Administration and the Centers for Medicare and Medicaid Services

RECAP OF SUBCOMMITTEE MEETING 1: FINANCIAL SENSITIVITIES TO BE MODELED

Financial sensitivities¹

- The Task Force requested that the Actuarial Report explore the financial impacts of the following alternative scenarios (i.e., financial sensitivities) to inform potential changes to the recommended Program designs:
 - Program opt-out provision transition date set to the beginning of the year preceding Program effective date
 - Benefit eligibility ages: no minimum age, 18+, 30+, 40+, 50+, and 65+
 - Vesting criteria: 10 years (Design 5)
 - Portability: full or partial international portability (all Designs)
 - Benefit maximum: \$1,000 per month (Design 1)
 - Elimination period: 0 days and 30 days (Design 2)
 - Care setting: home and community-based services only (Design 2)
 - Employer contributions: range to be assessed; including small businesses exemption (methodology TBD)
 - Contribution caps: range to be assessed, including no contribution cap
 - Investment methodology: U.S. Treasuries only

1. Refer to Section 3 (page 15) of the AB 567 Feasibility Report for further information: <http://www.insurance.ca.gov/0500-about-us/03-appointments/upload/AB567OliverWymanFeasibilityReport2022.pdf>

UPCOMING ACTUARIAL SUBCOMMITTEE MEETING SCHEDULE

All meetings will be open to the public; additional meetings may be scheduled on an ad-hoc basis as needed

MEETING #	MEETING DATE	TOPICS
02	APRIL 27, 2023	Alignment and input on methodologies and simplifications for preliminary actuarial analysis
03	AUGUST 24, 2023	Draft Actuarial Report update and input

While not required, non-Subcommittee Task Force members are welcome to join Actuarial Subcommittee meetings



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