OliverWyman

Memo

To:	California Department of Insurance
Date:	December 20, 2023
From:	Oliver Wyman
Subject:	**Overview of AB 567 Actuarial Report**

In December 2022, the Assembly Bill 567 (Calderon, Chapter 746, Statutes of 2019) Long Term Care Insurance Task Force ("Task Force") submitted a Feasibility Report to the Insurance Commissioner, Governor, and Legislative Assembly outlining recommendations for establishing a culturally competent statewide long-term care ("LTC") insurance program in California ("Program"). In 2023, Oliver Wyman completed their actuarial analysis to assess the cost and viability of the Program recommendations made by the AB 567 Task Force ("Actuarial Analysis"). This memorandum provides an overview of the Actuarial Analysis described in Oliver Wyman's Actuarial Report.

The actuarial estimates provided in the Actuarial Report are intended to assist the California Legislature in evaluating the feasibility of establishing a statewide public LTC program. If the Legislature proceeds with such legislation, it may choose to adopt some, all, or none of the Task Force's recommendations. Given that there are currently numerous unknowns (including, but not limited to, specific design elements, administration, and coordination with other programs), should a statewide public LTC program be established, the contribution rate estimates in the Actuarial Report are not intended to, and should not, be used for setting the tax rate without further refinement. As of the date of the Actuarial Report, the Legislature has not made any decisions regarding establishing a statewide public LTC program in California.

This memorandum is subject to the reliances and limitations described in Sections 6 and 7 of the Actuarial Report.

Baseline results

Exhibit 1 summarizes the estimated contribution rates[1] for each of the five Program designs recommended by the Task Force (i.e., the baseline scenarios). This exhibit demonstrates the potential trade-off between affordability of Program contributions, accessibility of Program benefits, and comprehensiveness of Program benefits. Designs 4 and 5 are more accessible and have more comprehensive Program benefits, which necessitates a higher contribution rate. Design 2 also has more comprehensive benefits but is the

[1] For the Actuarial Analysis, contribution rate is defined as a single, level tax rate (payroll tax rate for employed; income tax rate for self-employed) that applies beginning at age 18, with no maximum age. The Task Force recommended that the Program be financed by a progressive tax rate; however, specific progressivity tiers were not defined in the Feasibility Report. An illustrative progressivity construct is provided in Section 3.1.3 of the Actuarial Report.

only design with a benefit eligibility age of 65 and income-based vesting criteria, both of which serve to reduce the required contribution rate.

Exhibit 1: Estimated contribution rate by Program design (baseline scenario)

Design	Description	Overview	Estimated contribution rate
1	Supportive LTC benefits	• $36,000 over two years in supportive LTC benefits for California's adult population (ages 18+) • Examples of supportive benefits include caregiver support, adult day care, durable medical equipment, and minor home modifications	**0.60%**
2	Home care and residential care facilities ("RCF") benefits for older adults	• $110,400 over two years in targeted benefits for California's older adult population (ages 65+) • Covered services are the same as Design 1 *plus* formal home care and care in an RCF • This design attempts to limit duplication with Medi-Cal by not having lower-income individuals participate	**1.15%**
3	Lower-range comprehensive LTSS benefits	• $36,000 over one year in comprehensive benefits for California's adult population (ages 18+) • Covered services are the same as Design 2 *plus* coverage for California's Program for All-Inclusive Care for the Elderly	**0.65%**
4	Mid-range comprehensive LTSS benefits	• $81,000 over 18 months in comprehensive benefits for California's adult population (ages 18+) • Covered services include those covered in Design 3 *plus* care in a skilled nursing facility	**1.60%**
5	Higher-range comprehensive LTSS benefits	• $144,000 over two years in comprehensive benefits for California's adult population (ages 18+) • Covered services are the same as Design 4	**3.00%**

Certain Program design elements recommended by the Task Force or methodologies underlying the estimated contribution rates in Exhibit 1 may be challenging to implement due to external factors such as policymaker and public support. In particular, the baseline estimated contribution rates:

1. Reflect an investment strategy that includes U.S. Treasuries, bonds, stocks, and equities, which would require a state constitutional amendment
2. Assume a 50%/50% split in contributions between employees and employers, which may hinder business community support

3. Are calculated to achieve a Program fund balance[2] of zero at the end of the 75-year projection period (i.e., as of December 31, 2099), which could hinder long-term Program solvency as significant unfunded liabilities accrue beginning in 2100

Exhibit 2 summarizes the impact to the estimated contribution rates of alternative scenarios for the Program investment strategy, employer contribution level, and contribution rate methodology. Contribution rates are anticipated to be materially higher if any of these three components are altered.

Exhibit 2: Estimated contribution rates under select alternative scenarios

	Estimated contribution rate				
Scenario	**Design 1**	**Design 2**	**Design 3**	**Design 4**	**Design 5**
Baseline scenario	**0.60%**	**1.15%**	**0.65%**	**1.60%**	**3.00%**
Invest in U.S. Treasuries only	0.79%	1.61%	0.87%	2.16%	3.94%
25% employer contribution (75% employee contribution)[3]	0.70%	1.32%	0.76%	1.84%	3.49%
Establish a reserve at the end of the 75-year projection period[4]	0.76%	1.57%	0.83%	2.10%	3.84%

Results for a range of additional alternative scenarios recommended by the Task Force along with assumptions sensitivities are included in Section 3 of the Actuarial Report.

Fiscal impact on California's Medicaid Program

The Task Force recommended that the Program pay LTSS benefits before Medi-Cal, because Medi-Cal is the payer of last resort by federal law. Additionally, coordination of benefits between the Program and Medi-Cal should allow for concurrent benefits if they are non-duplicative. Exhibit 3 summarizes the estimated total (including both state and federal) fiscal impact to Medi-Cal under each of the five recommended Program designs, except Design 2. Results are shown on a present value basis as of January 1, 2025[5]. The Task Force recommended that a federal demonstration waiver from the Centers for Medicare and Medicaid Services be pursued to allow the state to retain any federal Medicaid savings attributable to the Program. For additional detail, refer to Section 4 of the Actuarial Report.

[2] For the Actuarial Analysis, the Program fund balance at a given date represents cumulative Program revenues less cumulative Program expenditures. A negative fund balance indicates a funding deficit.

[3] The significance of this impact is driven by contribution caps and contribution waivers not applying to employer contributions.

[4] Absent this reserve, we do not expect the current contribution rates will be sufficient to fund projected Program benefits for individuals enrolled in the Program as of December 31, 2099.

[5] We assume an effective date of January 1, 2025 for the Actuarial Analysis; however, as of the date of this report, the Legislature has not made any decisions about a public LTC program and there is no explicit effective date.

Exhibit 3: Estimated present value fiscal impact to Medi-Cal by Program design ($ billions)
(Total, including both state and federal impact)

Design	Description	Present value fiscal impact
1	Supportive LTC benefits	$83.0
2	Home care and RCF benefits for older adults	N/A[6]
3	Lower-range comprehensive LTSS benefits	$87.7
4	Mid-range comprehensive LTSS benefits	$201.9
5	Higher-range comprehensive LTSS benefits	$395.6

Feasibility Report Supplement

Based on the results of the Actuarial Analysis, the Task Force was asked if they would like to amend their views on the most preferred Program design and other designs they support relative to the preferences they expressed as part of the Feasibility Report. Exhibit 4 summarizes their amended preferences.

Exhibit 4: Amended Task Force Program design preferences[7]

Design	Description	Vote counts			
		Preferred design – 1st choice	Preferred design – 2nd choice	Supported design[8]	Total
1	Supportive LTC benefits	0	2	0	2
2	Home care and RCF benefits for older adults	5	0	2	7
3	Lower-range comprehensive LTSS benefits	1	5	2	8
4	Mid-range comprehensive LTSS benefits	4	1	2	7
5	Higher-range comprehensive LTSS benefits	1	2	2	5

[6] Design 2 attempts to limit duplication with Medi-Cal by not having lower-income individuals participate in the Program. As such, we expect the fiscal impact of Design 2 on Medi-Cal to be primarily driven by (1) LTSS costs associated with those who "spend down" their income and assets to qualify for Medi-Cal and (2) LTSS costs for individuals with low incomes at the time of LTSS need who may have previously had sufficient earnings to meet the vesting period for Design 2. We did not explicitly quantify the Medi-Cal fiscal impact for these cohorts under Design 2.

[7] Counts do not add up to 15 because Task Force members from the California Department of Aging, California Department of Insurance, and California Department of Health Care Services were absolved from providing a recommendation and one additional Task Force member was unable to vote. The total vote count is out of a maximum possible vote count of 11.

[8] The "supported design" count does not include Task Force members who selected the design as their first or second choice.