Prepared for the California Department of Insurance

Presentation #20.A

AB 567 ACTUARIAL ANALYSIS

Preliminary actuarial analysis and next steps

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.

July 2023

A business of Marsh McLennan

QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

PRELIMINARY RECOMMENDATION: ADDITIONAL BENEFIT DESIGN CONSIDERATIONS

Task Force Members were asked to provide their preliminary views on the two benefit design considerations discussed at Meeting #19

GOAL FOR TODAY'S DISCUSSION: Summarize and align on Task Force's preliminary recommendation for the additional benefit design considerations

Monthly benefit maximum: Should monthly benefit maximums be removed, retaining only a lifetime maximum (i.e., allow individuals to use their entire $36,000 to $144,000 benefit, depending on Design, without monthly constraints)?[1]

	Percentage of votes				
Potential choices	**Design 1**	**Design 2**	**Design 3**	**Design 4**	**Design 5**
Remove monthly benefit maximum for select higher-cost services or care settings	36%	**55%**	**55%**	**55%**	**45%**
Retain monthly benefit maximum	**45%**	18%	18%	18%	27%
Remove monthly benefit maximum	18%	27%	27%	27%	27%

Based on Task Force members feedback, remove monthly benefit maximum for **home modifications and durable medical equipment**[2]

Benefit type flexibility: Should beneficiaries be permitted to switch between full reimbursement and 50% cash benefits on designs that include a cash alternative (i.e., Designs 2, 4, and 5)?

	Percentage of votes				
Potential choices	**Design 1**	**Design 2**	**Design 3**	**Design 4**	**Design 5**
Allow beneficiaries to change their benefit types but establish guardrails		**82%**		**91%**	**100%**
Do not allow beneficiaries to change their benefit type after their first claim		18%		9%	0%
Allow beneficiaries to freely switch between benefit types		0%		0%	0%

Based on Task Force members feedback, allow beneficiaries to switch their benefit type **one time**

1. The lifetime benefit maximums would still apply ($36,000 to $144,000, depending on the Design)
2. Two Task Force members recommended removing the monthly benefit maximum for home care. Note that home care tends to be lower cost (relative to facility care); the monthly benefit maximum is less likely to be exceeded when beneficiaries utilize home care

RECAP OF ACTUARIAL SUBCOMMITTEE MEETING 2: OVERVIEW AND SCOPE

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

Members	• The Actuarial Subcommittee is comprised of the following five Long Term Care Insurance Task Force Members ("Task Force"): – **Susan Bernard**[1] (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	• Serve as an advisory group to Oliver Wyman's actuarial analysis – 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)

1. Ahmad Kamil (Chief Actuary, California Department of Insurance) is serving as the California Insurance Commissioner Ricardo Lara designee and Task Force Chair, effective July 1, 2023

RECAP OF ACTUARIAL SUBCOMMITTEE MEETING 2: MODELING OVERVIEW

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

Modeling overview	• Model input data will be stratified by gender, age band, income type (wage or self-employed), entry year (2024 through 2099)[1] • Program projection period will be 75 years, assumed to begin on January 1, 2025 – Impact of assuming a later Program effective date will be assessed (i.e., later than January 1, 2025) – A 75-year projection period is standard for determining the actuarial balance of a public insurance program[2] • Model will solve for a level payroll tax rate for the wage-employed and a level income tax rate for the self-employed – Calculation accounts for lower-income contribution waivers and higher-income contribution cap - Four starting contribution waiver levels will be assessed[3]: \$20,000, \$30,000[4], \$35,000, and \$50,000 - Four starting contribution caps will be assessed: no cap, \$200,000, \$400,000[4], and \$500,000 – Calculation allows for employer/employee paid portion flexibility – Illustrative tax progressivity constructs will be assessed • A minimum 500 hours worked (per year) requirement is assumed for the vesting criteria. An earnings-based requirement (akin to Social Security) will also be assessed • Model output will include expected Program tax rate, projected cash flows (revenues, benefits, and expenses) and projected number of individuals covered by the Program – Actuarial Report will include an overview of individuals not covered by the Program – Expected future Program benefits and expenses will be estimated for current retirees, assuming they participate in the Program - Actuarial Report will include qualitative considerations on feasibility of contribution sources given estimated costs for retirees – Medi-Cal fiscal impact will also be estimated

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
3. Flat denominations are used to proxy a range of Federal Poverty Levels ("FPLs"); the 2023 FPL is \$14,580, \$19,720, \$24,860, and \$30,000 for 1-, 2-, 3-, and 4-person households, respectively (https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines). Most adult Californians up to 138% FPL will be eligible for Medi-Cal
4. Assumed baseline for modeling purposes; financial impact of alternative contribution waiver levels and contribution caps will be quantified relative to the assumed baseline

FOR DISCUSSION – SUBJECT TO CHANGE

RECAP OF ACTUARIAL SUBCOMMITTEE MEETING 2: ACTUARIAL ASSUMPTION OVERVIEW

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

Actuarial assumption definitions	**Actuarial assumption**[1] • An estimate of an uncertain variable used in a financial model, normally for the purposes of calculating premiums or benefits • Actuarial assumptions often involve mathematical and statistical models designed to evaluate risk and probabilities for a particular event	**Mortality** • Probability that an individual will die • Assumed to differ for individuals that are healthy ("active") versus disabled[2] ("on claim")	**Morbidity** Comprised of three primary components: • **Incidence**: probability that a healthy individual will become disabled[2] • **Recovery**: probability that a disabled[2] individual will become healthy • **Benefit utilization**: amount of Program benefits used by a disabled individual relative to maximum amount allowable
Actuarial assumption overview	• Actuarial assumptions include mortality, morbidity (claim incidence, claim recovery, and benefit utilization), California emigration, administrative expenses, benefit inflation, and program exemptions for eligible private insurance • Assumption variance is based on data availability and is intentionally restricted in certain instances to reduce implied specificity • Pre-COVID experience is used to develop assumptions; recent LTC experience is trending back to pre-COVID levels, so no COVID adjustments are applied[3] • Where LTC-insured data is used for assumption development, adjustments will be applied to calibrate assumptions for the California population that will be part of the Program		

1. https://www.investopedia.com/terms/a/actuarial-assumption.asp
2. For the purpose of our assumptions, an individual is assumed to be disabled once they meet the Program's benefit eligibility criteria, regardless of their vesting status; however, Program benefits are only paid to vested individuals. To be eligible for Program benefits, individuals must be certified by a licensed health care practitioner as (i) being unable to perform (without substantial assistance from another individual) at least 2 Activities of Daily Living ("ADLs") for a period of at least 90 days due a loss of functional capacity or (ii) requiring substantial supervision to protect such individual from threats to health and safety due to severe cognitive impairment. The six standard ADLs include bathing, dressing, toileting, transferring, continence, and eating
3. Short-term effects of the pandemic are believed to be worn off or immaterial to Program projections; while there could be long-term COVID impacts, we still do not have enough data to support assumption adjustments

NEXT STEPS AND TIMELINE

JULY 13, 2023

YOU ARE HERE

Task Force Meeting #20
Baseline actuarial model and assumptions are nearly complete and undergoing internal review

AUG 10, 2023

Task Force Meeting #21
Share preliminary contribution rates and summary of Californians covered (vs. excluded) under each design; discuss potential Program design changes[1]

SEPT 21, 2023

Task Force Meeting #22
Discuss potential Program design changes based on questionnaire results, if applicable[2]

OCT 3

Actuarial Subcommittee will meet to discuss work-in-progress Actuarial Report (to be provided in advance); Actuarial Subcommittee feedback due by **Oct. 13**

NOV 2, 2023

Task Force Meeting #23
Discuss draft Actuarial Report (to be provided in advance); Task Force feedback due by **Nov. 14**

DEC 14, 2023

Task Force Meeting #24
Discuss final Actuarial Report, highlighting key conclusions and next steps

JAN 1, 2024

Final Actuarial Report
Due to Legislature on or before January 1, 2024; subject to Task Force approval

1. Following Task Force Meeting #21, Oliver Wyman will issue a questionnaire asking Task Force members if they recommend any changes to the five Program designs based on the preliminary actuarial analysis results
2. A supplement to the Feasibility Report will be included in the Actuarial Report, documenting additional Task Force recommendations, if applicable

OliverWyman

A business of Marsh McLennan