

LTC BULLETIN: JANUARY 2024

## CALIFORNIA LONG-TERM CARE INSURANCE TASK FORCE COMPLETES ACTUARIAL ANALYSIS PHASE

View the just-released final [actuarial report](#) prepared for the California legislature.

Two significant elder trends — an aging population and dramatically rising long-term care (LTC) costs — are barreling toward state and federal programs, particularly Medicaid. Governments at all levels are bracing for the financial impact and are searching for new funding solutions. For example, in Minnesota, the Department of Human Services projects Medicaid expenditures for long-term services and support (LTSS) needs will increase 70% by 2035 to nearly \$3.4 billion annually.<sup>1</sup>

In October 2019, California Governor Gavin Newsom approved Assembly Bill No. 567, six months after Washington state's Long-Term Services and Supports Trust Act (now known as WA Cares Fund) was signed into law. AB 567 established the California Long-Term Care Insurance Task Force and required the task force to:

- Recommend options for establishing a potential program
- Comment and provide a feasibility report to the commissioner, the governor, and the state legislature
- Follow up with an actuarial report

### TIMELINE FOR AB 567 TASK FORCE

#### 2021–2022

- 18 meetings conducted by LTCI Task Force

#### JANUARY 1, 2023

- Final Feasibility Report available
- View the [Feasibility Report](#) ›

#### 2023

- Oliver Wyman completed an Actuarial Analysis for five program designs and many alternative scenarios

#### JANUARY 1, 2024

- Final actuarial report completed and available to legislature no later than January 1, 2024
- View the [Actuarial Report](#) ›

<sup>1</sup> Long-Term Services and Supports for Minnesota's Older Population: Current and Future Utilization and Payments; State Health Access Data Assistance Center (SHADAC), University of Minnesota School of Public Health; Purdue University School of Nursing

## IMPACT AND PLANNING

### IMPACT

It's always a challenge to predict legislation, but it's possible California may implement a program over the next couple of years. However, many details are far from final, including which of the five plan designs in the final report will be selected and which scenarios will be used within those plans. Employers will want to know if they will be required to pay a portion of a payroll tax and how they will need to administer it. Many individuals want to know if an exemption will be available, what type or product/plan design is required, and if the plan will be portable. And both employers and individuals will want to know what tax rate or structure will be implemented.

To date, the WA Cares Fund is the only comparable state effort. The payroll tax implementation in Washington began in July 2023 with benefits first becoming available to qualified, eligible individuals in 2026. Ongoing discussions highlight concerns with various program aspects (i.e., portability of WA Cares benefits, recertification of private LTCI for opt-out) from constituents and industry groups.

### PLANNING

California residents, particularly working residents with high incomes, may want to think about long-term care planning sooner rather than later for three reasons:

1. **The potential amount of tax, and if employers will also contribute** — In the Actuarial Report, payroll tax rates range from a level 0.60% to 3.00% depending on which of the five plan designs is selected. Rates, however, could vary based on factors such as adoption of a progressive tax structure, what percentage an employer may need to fund, and the uncertainty around which provisions are implemented.
2. **What income levels may be taxable** — The Actuarial Report provided baseline assumptions of taxes for incomes between \$30,000 and \$400,000 annually. However alternative scenarios were considered from a lower maximum income to no cap at all.
3. **The timing of a potential exemption to purchase a private LTC policy** — If this provision is implemented, the cutoff date, the types of policies that qualify, and any minimum plan design requirements, are of keen interest, and a concern. The Actuarial Report looked at various timings for an exemption date along with a partial opt-out after the program is implemented.

#### If Washington state's law is used as a guide:

- **Potential opt-out/eligibility date for an issued private LTC policy** — After the Washington state legislation was signed, an extended period was added to the opt-out deadline which allowed individuals to purchase private insurance.<sup>2</sup> The result was a surge of interest from the public that overwhelmed insurance companies. Consequently, many carriers temporarily discontinued sales to process applications and issue policies in time for exemption deadlines.
- Other states legislatures, including California, may possibly take note, and if they do allow an exemption, could require policies to be issued as of, or before, the legislation is signed into law (at least for a full exemption).

California's Actuarial Report highlights the almost countless alternative scenarios that can be analyzed, creating many future unknowns. This makes any type of detailed planning difficult. But, perhaps the greatest unknown is the state of our health as we age. For this reason, it's better to start planning now while we are still healthy. Planning now also gives purchasers control that they may not have once legislation is finalized.

### Beyond California

The federal government and several states other than California are exploring this issue and various options.

In October 2023 Minnesota released a report, *Own Your Future 3.0: Planning for Minnesotans' [Long-Term Services and Support] Needs*.

Other states are likely to follow suit, studying this topic, and more legislation is expected to be introduced in 2024.)

<sup>2</sup> In Washington's case, Critical Illness (IRC 101(g)) riders do not qualify; only those products filed as IRC 7702B per the Washington state insurance code are considered qualified LTC insurance. No specific plan design minimums were required in Washington.

## ADDITIONAL RESOURCES

- [California Long-Term Care Insurance Task Force](#)
- [Minnesota Own Your Own Future Initiative](#)
- [WA Cares Fund](#) (Washington State)

For more information, please contact a M Financial Member Firm.

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