

# AB 567 FEASIBILITY REPORT

*Feasibility Report Overview*

June 2023

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# STEPHANIE MOENCH, FSA, MAAA



Stephanie Moench is a Principal with the Actuarial Practice of Oliver Wyman and co-leads the Long-Term Care (“LTC”) Practice. She has over 12 years of experience as an LTC consultant, specializing in actuarial modeling, assumption development, and in-force management for both traditional LTC and combination LTC products.

Stephanie is part of the Oliver Wyman team supporting the California Department of Insurance in assessing the feasibility of implementing a statewide LTC program for its residents.

When she’s not working, Stephanie enjoys spending time outdoors with her dogs and running. As an avid runner, completing the Boston Marathon (twice) was a significant accomplishment for her.



# TODAY'S AGENDA

- 1** AB 567 background
- 2** AB 567 timeline
- 3** AB 567 Program design options
- 4** AB 567 next steps

# AB 567 BACKGROUND

AB 567 established the Long-Term Care Insurance Task Force (Task Force) to explore the feasibility of a statewide LTC program (Program)



## Bill establishment

- AB 567 (Calderon, Chapter 746, Statutes of 2019) was introduced in recognition of California’s aging population
- Passed by California’s Legislative Assembly and Senate, and approved by Governor Newsom in October 2019



## Task Force<sup>1</sup>

- 15 members (volunteers and government agency representatives)
- Includes representation from a health policy expert, LTC providers, family caregivers, health professionals, a senior/consumer organization, actuaries, the LTC insurance industry, an LTC workers organization, and California government agencies (Department of Aging, Department of Health Care Services, and Department of Insurance)



## Task Force mandate

- The Task Force’s mandate included the following activities:
  - Explore how a Program could be designed and implemented to expand options for people interested in insuring themselves against the risk of costs associated with functional or cognitive disability, and requiring LTSS
  - Explore Program design options, including eligibility, enrollment, benefits, financing, administration, and interaction with Medi-Cal and other publicly funded resources
  - Evaluate how benefits under the Program would be coordinated with existing private health care coverage benefits
  - Evaluate LTC workforce demands as the need for LTC in California grows, and how LTC workforce can be prepared to meet demands
  - Consider establishment of a joint public/private system to make LTC accessible to as many Californians as possible
  - Make recommendations related to key regulatory provisions necessary for the public to access existing LTC insurance programs and participate in future LTC insurance programs (whether recommended by Task Force or not)

<sup>1</sup> A list of Task Force members and their roles is available in Section 1 (page 2-3) of the [Feasibility Report](#)

# AB 567 TIMELINE

The Task Force first convened in **2021** to explore the feasibility of developing and implementing a culturally competent statewide LTC insurance program in California



The five Program design options will undergo financial analysis by Oliver Wyman in **2023** to determine cost and viability of each design



The establishment of an LTC program in California may be several years away

Legislation would be required to establish a statewide LTC program in California



On December 15, **2022**, the Task Force unanimously approved a motion to adopt a Feasibility Report<sup>1</sup> recommending five Program designs

Designs range from \$36,000 in supportive LTC benefits to \$144,000 in comprehensive LTSS benefits

The Task Force will make its final recommendations to the California Legislature in an Actuarial Report submitted by January 1, **2024**

<sup>1</sup> The views expressed in the Feasibility Report are those of both current and former Task Force members, except for the Task Force members from DHCS and CDA, whose roles were to provide technical assistance

# AB 567 PROGRAM DESIGN OPTIONS: OVERVIEW

Five program designs were recommended by the Task Force

		Lower cost
<b>1</b>	<b>Supportive LTC benefits</b>	<ul style="list-style-type: none"> <li>• \$36,000 in supportive LTC benefits for California’s adult population (ages 18+)</li> <li>• Supportive services include adult day care, caregiver support, meal delivery, transportation, and minor home modifications</li> </ul>
<b>2</b>	<b>Home care and residential care facility (“RCF”) benefits for older adults</b>	<ul style="list-style-type: none"> <li>• \$110,400 in targeted benefits for California’s older adult population (ages 65+)</li> <li>• Covered services are the same as Design 1, along with formal home care and care in an RCF</li> <li>• Design attempts to limit duplication with Medi-Cal, California’s Medicaid Program</li> </ul>
<b>3</b>	<b>Lower-range comprehensive LTSS benefits</b>	<ul style="list-style-type: none"> <li>• \$36,000 in comprehensive benefits for California’s adult population (ages 18+)</li> <li>• Covered services are the same as Design 2</li> <li>• Inspired by WA Cares Fund design with select updates</li> <li>• Estimated payroll tax range: 0.40% to 0.60%<sup>1</sup></li> </ul>
<b>4</b>	<b>Mid-range comprehensive LTSS benefits</b>	<ul style="list-style-type: none"> <li>• \$81,000 in comprehensive benefits for California’s adult population (ages 18+)</li> <li>• Covered services include those from Design 3, along with care in a skilled nursing facility</li> </ul>
<b>5</b>	<b>Higher-range comprehensive LTSS benefits</b>	<ul style="list-style-type: none"> <li>• \$144,000 in comprehensive benefits for California’s adult population (ages 18+)</li> <li>• Covered services are the same as Design 4</li> </ul>
		Higher cost



<sup>1</sup> Estimated range is based on the 2020 Milliman CA LTSS Feasibility Study; actuarial analysis by Oliver Wyman is ongoing for the five designs recommended by the Task Force

# AB 567 PROGRAM DESIGN OPTIONS: NOTABLE DESIGN FEATURES



## Benefit portability

- All design options include some level of portability to allow vested individuals to use Program benefits outside California
- Degree of portability differs by design option:
  - **Partial domestic portability:** Partial benefits (grading from 100% to 50% over 5 years) available outside California but within US [Designs 2 and 3]
  - **Full domestic portability:** Full benefits available outside California but within US [Designs 1 and 4]
  - **Full international portability:** Full benefits available outside California, including internationally [Design 5]
- Individuals who work in California but live in another state would be included in Program



## Program financing [all designs]

- Progressive payroll tax (possibly split between employees and employers)
- Income-based tax for self-employed individuals
- Program contributions begin at age 18
- Waivers for lower-income individuals
  - Under Design 2, lower-income individuals would not contribute or receive vesting credits to limit duplication with Medi-Cal<sup>1</sup>
- Most designs (except Design 4) include a contribution limit to improve reasonableness of Program benefits relative to contributions
- Several scenarios are being considered to extend Program coverage to current retirees<sup>2</sup>



## Private insurance interaction [all designs]

- Substitutive private insurance (e.g., private insurance that provides similar LTSS coverage as Program) will pay first<sup>3</sup>
- Tiered exemption (opt-out) provision:
  - **Program opt-out:** Individuals who own eligible substitutive private insurance sold on or before Program effective date could qualify for a full exemption
  - **Reduced contributions:** Individuals who own eligible substitutive private insurance policies sold after Program effective date could qualify for reduced contributions
    - To be eligible, private insurance policies will have to meet certain standards
    - Periodic recertification will be required

<sup>1</sup> Individuals who are below the income limit in some years will still vest if they accumulate enough vesting credits over their working lifetime.









<sup>2</sup> Potential options include a personal income tax, premium contributions, lump-sum buy-in, or funding from California's General Fund revenue.

<sup>3</sup> Supplemental (wrap-around) private insurance products developed after Program effective date would not be eligible for reduced Program contributions and may be subject to different interaction criteria.



# AB 567 PROGRAM DESIGN OPTIONS: OTHER KEY DESIGN FEATURES

Several Program design elements received broad support from the Task Force and are reflected in all five Program designs

	<b>Program structure</b>	<ul style="list-style-type: none"><li>• Front-end coverage (benefits generally payable near beginning of LTSS need)</li><li>• Vesting criteria of either 5 or 10 years of Program contributions</li><li>• Partial (pro-rated) benefits available after 3 or 5 years, depending on design</li></ul>
	<b>Benefit eligibility criteria</b>	<ul style="list-style-type: none"><li>• 2 of 6 activities of daily living (ADLs) or severe cognitive impairment<ul style="list-style-type: none"><li>– Consistent with benefit eligibility criteria used for most private LTC insurance products</li></ul></li></ul>
	<b>Elimination period</b>	<ul style="list-style-type: none"><li>• Most designs do not have an elimination period (Design 2 is the exception with a 90-day elimination period)</li></ul>
	<b>Family caregiver support</b>	<ul style="list-style-type: none"><li>• Reimbursement to informal or family caregivers subject to completion of certified caregiver training<ul style="list-style-type: none"><li>– Three designs also include a reduced (50%) cash benefit alternative, which could be used to pay informal or family caregivers without requiring certified caregiver training</li></ul></li></ul>
	<b>Benefit inflation</b>	<ul style="list-style-type: none"><li>• Benefit increases based on a consumer price index<ul style="list-style-type: none"><li>– Evaluated annually but not automatically applied (except for Design 5)</li></ul></li></ul>
	<b>Investment strategy</b>	<ul style="list-style-type: none"><li>• Invest in U.S. treasuries, bonds, stocks, and other equities (state constitutional amendment required)</li></ul>
	<b>Intergenerational equity</b>	<ul style="list-style-type: none"><li>• Grade up Program benefits over the first 20 years (except for Design 1)</li></ul>
	<b>Medi-Cal interaction</b>	<ul style="list-style-type: none"><li>• Program pays <u>before</u> Medi-Cal and should not influence Medi-Cal eligibility</li></ul>

# AB 567 NEXT STEPS

The Task Force recommended several additional next steps that require further exploration

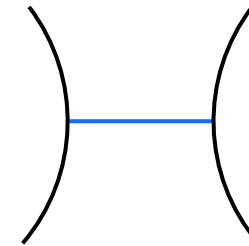
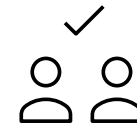
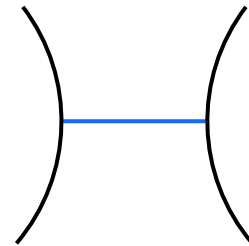
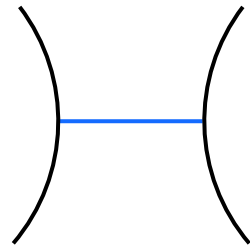
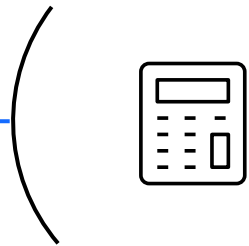
## Some of the recommended next steps include:

### Financial analysis

Assess several alternative scenarios (i.e., financial sensitivities) as part of the actuarial analysis<sup>1</sup>

### Eligibility and enrollment

Assess number of Californians covered under each of the five recommended designs and identify any groups of Californians not covered



### Separate working groups

Establish six separate working groups to examine a range of topics that could influence certain aspects of the Program

### Financing

Explore alternative revenue sources to allow current retirees (as of Program launch) to contribute to, and benefit from, the Program

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Next steps related to coordination and interaction, benefits and services, administration, and the LTSS workforce were also proposed<sup>2</sup>

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<sup>1</sup> Alternative scenarios include, but are not limited to, alternative benefit eligibility ages, reduced elimination periods (Design 2 only), international benefit portability, earlier opt-out provision deadlines, and a range of contribution limits.

<sup>2</sup> Refer to Section 3 (page 15) of the [Feasibility Report](#) for further information regarding the Task Force's recommended next steps.

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