Washington Research Council

Policy Brief

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I-2124: Making the State's Long-Term Care Program Optional

Briefly

If approved by voters, Initiative 2124 would make the long-term services and supports trust (LTSST) program optional for all workers. The Office of Financial Management believes that revenues to the LTSST account would decrease as workers choose to opt out of the program, but it does not estimate how many opt outs there would be. Thus, the impact of I-2124 on program revenues and benefits is indeterminate.

Ultimately—possibly as soon as fiscal year 2027—the LTSST program could become insolvent. Insolvency would depend on the number and demographics of individuals choosing to opt out as well as the state's response. Increasing the premiums or reducing benefits could lead to more departures.

I-2124 would give workers in Washington the opportunity to weigh the level of LTSST benefits provided by the program and the amount of tax they are paying and decide whether it is worth it for them.

In November, voters will decide whether to make the state's nascent long-term care program optional. Approval of Initiative 2124 could mark the beginning of the end of the program.

The Long-Term Care Program Has Not Yet Been Fully Implemented

The long-term services and supports trust (LTSST) program (marketed by the state as the WA Cares Fund) was enacted in 2019. After some delay and program changes, premium collection began on July 1, 2023. All employees in Washington are required to pay the premium, unless they have an exemption (detailed below). The tax rate is 0.58% of all wages.

The statute specifies that, beginning Jan. 1, 2026, the rate will be set by the Pension Funding Council at a rate that is "no greater than" 0.58% and that is "the lowest amount necessary to maintain the actuarial solvency of the long-term services and supports trust account" (RCW 50B.04.080). According to the Employment Security Department (ESD), the state collected $1.362 billion in premiums for fiscal year 2024 (LTSSTC 2024c). (FY 2024 began July 1, 2023 and ended June 30, 2024.)

Benefits will be available for eligible beneficiaries in Washington beginning July 1, 2026. Individuals will qualify to receive full benefits if they have paid the premiums for 10 years (including at least five consecutive years) or if they have paid the premiums for three years within six years of applying for benefits. Additionally, individuals will be qualified for prorated benefits if they were born before 1968 and paid the premiums for at least one year. To be qualified, individuals must also have worked for at least 500 hours a year. Then, qualified individuals become eligible beneficiaries when they need assistance with at least three activities of daily living (e.g., eating, bathing, and moving around).

Qualified individuals living outside of Washington are eligible for benefits beginning Jan. 1, 2030. They must need help with at least two activities of daily living due to a loss of functional capacity or they must have cognitive impairments. (While the in-state threshold is consistent with Washington's Medicaid standard, the out-of-state threshold follows the national private long-term care insurance standard. According to the LTSS Trust Commission, this will "simplify administration of conducting assessments nationwide" (LTSSTC 2024a).)

The lifetime benefit amount is 365 benefit units. A benefit unit is defined as "up to $100," to "be adjusted annually at a rate no greater than the Washington consumer price index." (There is no specific Washington consumer price index.) The $36,500 lifetime benefit cap would cover (for example) 2.9 months in a semi-private room in a nursing home, 5.1 months of adult day care, or 14.7 months of the services of a home health aide for two hours a day (Genworth 2024).

Exemptions and Opt-Ins. Under current law, members of five employee groups may request an exemption from the program. (The groups are listed in the table below.) Once individuals have been granted an exemption, they do not pay the tax and generally are permanently ineligible for coverage; however, some individuals can requalify under certain circumstances. As shown in the table, exemptions total 537,783 workers as of the first quarter of 2024 (LTSSTC 2024b). Exempt workers account for 15.4% of total workers in the state, while the wages earned by exempt workers account for 25.9% of total wages (ESD 2024).

Additionally, the self-employed may choose to opt in to the program; after doing so, they may not withdraw. As of May 1, 620 self-employed individuals had opted in (LTSSTC 2024b). That is 0.17% of the estimated 362,000 self-employed individuals in Washington (Milliman 2022).

I-2124 Would Make the Program Optional

Initiative 2124 would make the LTSST program optional for all workers. Employees and the self-employed would have to "elect to keep coverage." Then, if they elect coverage, they would "also have the option to opt out at any time." The details of how this would work would be determined through ESD rulemaking.

The text of the initiative suggests that current workers would have to first proactively affirm that they

Table: LTSST Program Data for the First Quarter of CY 2024

	Number	Total Quarterly Wages (Dollars in Billions)
Workers Paying Premiums	2,955,455	$60.8
Exempt Workers	537,783	$21.3
People who had purchased private long-term care insurance before Nov. 1, 2021	481,901	
Veterans with service-connected disabilities	3,689	
Spouses of active duty service members	1,346	
Temporary workers on nonimmigrant visas	32,601	
People who work in Washington but live out of state	18,246	

Source: ESD

want to remain in the program: Employees "must elect to keep coverage." However, the state has signaled that, if I-2124 passes, current employees would stay in the program by default. The fiscal impact statement for the initiative states, "Workers who do not have an exemption from the Long-Term Services and Supports program (LTSS) will continue paying premiums unless and until they affirmatively opt out of the program" (OFM 2024b). In an earlier fiscal note for the initiative, ESD added, "Future workers in Washington will also be provided the opportunity to affirmatively opt out of the program" (OFM 2024a).

I-2124 Would Not Impact the General State Budget

The Office of Financial Management (OFM) estimates that I-2124 would increase state administrative costs while reducing LTSST premium revenues. All of these impacts would be to the LTSST account, from which LTSST benefits and administrative costs are paid.

OFM assumes that revenues to the LTSST account would decrease as workers choose to opt out of the program, but it does not estimate how many opt outs there would be. Thus, "the total impacts to revenue and program costs, including the amount for paying future benefits, are indeterminate" (OFM 2024b).

Due to this uncertainty, OFM provides a range showing the potential increase to state administrative costs from the initiative based on the number of workers opting out. According to OFM, the increase in FY 2024 administrative costs resulting from the initiative would range from $5.7 million (if 25% of workers opt out) to $11.3 million (if 75% of workers opt out). The increase in administrative costs for the 2025–27 biennium would range from $6.9 million (if 25% of workers opt out) to $20.0 million (if 75% of workers opt out). (For comparison, current appropriations from the LTSST account total $99.5 million for 2023–25, of which $59.4 million is for FY 2025.)

If approved, the initiative would be effective Dec. 5, 2024. OFM's estimate assumes that if someone opts out, "premium collections would stop the first day of the following calendar quarter after the opt-out request is made." (That is, if someone opts out in December 2024, they would pay premiums for the remainder of the month. If someone opts out in January 2025, they would pay premiums through March 2025.)

I-2124 Could Make the Program Unsustainable Almost Immediately

In the fiscal impact statement, OFM writes, "An analysis by the Office of the State Actuary indicates that if rates of non-participation are high enough, the Long-Term Services and Supports Trust Account could become insolvent as early as state fiscal year 2027" (OFM 2024b). FY 2027 is the first year that benefits will be available under the program. The Office of the State Actuary (OSA) estimated that if short-term expenditures do not change but the program loses at least 65% of premiums, the program could be insolvent in FY 2027 (OFM 2024a).

The most recent full baseline actuarial study of the LTSST program was completed in 2022. This study estimated that the program would be solvent over the 75-year actuarial period with the 0.58% premium rate (Milliman 2022). However, in 2024, the Legislature made people who move out of state eligible for benefits. OSA estimated that this policy change could increase the premium rate required for solvency by 5–11 basis points, compared to the 2022 study (OSA 2024).

An updated actuarial study is expected in December 2024. In December 2023, Milliman estimated the possible impact of making the LTSST program voluntary. (The estimates do not include the impact of making benefits portable.) Relative to the 2022 study, Milliman estimated that premiums would have to increase considerably to maintain solvency, "and the interaction of the premium rate, participation, and adverse selection could lead to an insurance premium rate spiral" (Giese 2023).

When a social insurance program is optional, adverse selection can be a serious problem. In the case of the LTSST program, people who expect to need long-term care would be more likely to stay in the program while healthier and younger people would be more likely to opt out. Similarly, people with high incomes would be more likely to leave the program given that the benefit amount is the same for everyone. With lower revenues and higher benefit costs, the state would need to increase premiums to maintain solvency. In turn, that would lead to more people opting out—an "insurance premium rate spiral." (Recall that statute requires the premium rate to be no more than 0.58% and the lowest amount to maintain solvency.)

OSA notes, "If the cycle repeats without intervention, the program could utlimately [sic] become financially unsustainable (the inability to collect premiums high enough per person to cover benefit payments)" (OFM 2024a).

Milliman estimated that if the program is voluntary and there is no adverse selection (i.e., participating and non-participating individuals have the same average expected wages and average expected program expenditures), the current premium rate could be sufficient—even if only a small percentage of workers remain in the program.

However, with full adverse selection, the necessary premium rate would rise as the participation rate declines. For example, the premium rate could need to rise to 0.87% if there is 75% participation and to 1.74% if there is 25% participation. Ultimately, the required premium rate could "exceed 20 times the 2022 Base Plan estimate" (Giese 2023). That is, if a small percentage of people remain in the program and there is full adverse selection, the premium rate could need to rise to 11.6% to maintain solvency. (These estimates assume participants would not be allowed to remain in the program if they stop paying premiums after 10 years, instead of continuing to pay premiums throughout their careers even after vesting.)

Comment

I-2124 would give workers in Washington the opportunity to weigh the level of LTSST benefits provided by the program and the amount of tax they are paying and decide whether it is worth it for them. If I-2124 is approved by voters, it is highly unlikely that the program could be sustained over the long run. If changes aren't made to the program, as more individuals opt out, the program would require increased premium rates or an infusion of cash from state coffers. Alternatively, the Legislature could proactively repeal the program if I-2124 is approved.

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