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ARTICLE

Implementing a long-term care statewide program: See how tax rates could vary by state

By Chris Giese, Annie Gunnlaugsson, and Evan Pollock

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Introduction

More Americans are turning 65 than ever before, leading to growing future projected costs related to long-term care (LTC) services. States across the country are grappling with the increasing challenge of how to finance LTC (which may interchangeably be referred to as "long-term services and supports," or LTSS) and are beginning to consider new solutions they could employ, because government programs are currently the largest payer for LTC services.[1] As a prime example, the state of Washington began collecting revenue via a payroll tax on July 1, 2023, for the WA Cares Fund (WCF), the nation's first-of-its-kind state-based LTC social insurance program.

The WCF provides coverage through a "front-end" plan design, where eligible individuals can access a limited lifetime benefit ($36,500 with adjustments for inflation) with no deductible. This design contrasts with a "back-end" design, which typically uses a larger deductible or elimination period before eligible individuals can access benefits. As states consider programs such as the front-end design used in Washington, we wanted to explore some of the key factors that might cause needed tax rates to vary, given the diverse demographic and economic environments across the United States. For this article, we examined relative differences in an estimated payroll tax under a front-end design arising due to the unique characteristics of each state. In the graphic in Figure 2 below, we present the relative differences in tax rates by state as a color spectrum and comment on drivers that influence the tax rate.

Study approach

We modeled two front-end benefit design structures to help illustrate the potential differences in estimated tax rates among the 50 states. Figure 1 summarizes the key features of each design. As illustrated in Figure 1, all plan features are the same across the two designs except for the daily benefit maximum and lifetime benefit. Note that neither of these designs is intended to reflect WCF benefits precisely, but rather are illustrative designs for a general front-end program.

Figure 1

Key features of modeled LTC benefit plan designs		
	Design 1	**Design 2**
Participation	100% Mandatory	100% Mandatory
Covered Services	Comprehensive, Private Market Benefits	Comprehensive, Private Market Benefits
Minimum Age for Benefits	18	18
Benefit Eligibility	HIPAA Definition*	HIPAA Definition*
Benefit Structure	Reimbursement	Reimbursement
Daily Benefit Maximum (DBM)	$100	Cost of Home Care by State
Lifetime Benefit	$36,500 at Start	DBM x 365 Days at Start
Elimination Period	90 Days	90 Days
Daily and Lifetime Benefit Index	3%	3%
Portability	None	None
Vesting Requirements	10 Years Total	10 Years Total

** Health Insurance Portability and Accountability Act (HIPAA) definition for tax-qualified services.*

Design 1 illustrates how differences in wages, demographic mix, mortality, and other state-specific factors influence the estimated tax rate under a consistent benefit. **Design 2** additionally considers the variation in estimated tax rates if plan benefits vary by state (based on each state's observed cost of care in a home setting).

We develop tax rate estimates by calculating the present value of revenue and expenditures over a 75-year period from 2023 through 2097. Revenue to the program consists of taxes on wages and interest earned on the account balance. In practice, states could use other approaches besides a wage tax to fund the program. Expenditures to the program consist of benefit payments for covered services and administrative expenses.

Select the plan design to see how the modeled results could vary by state.

Figure 2

STATE-BASED FRONT-END LTC PROGRAM: ILLUSTRATION OF POTENTIAL VARIATION IN TAX RATE ON WAGES

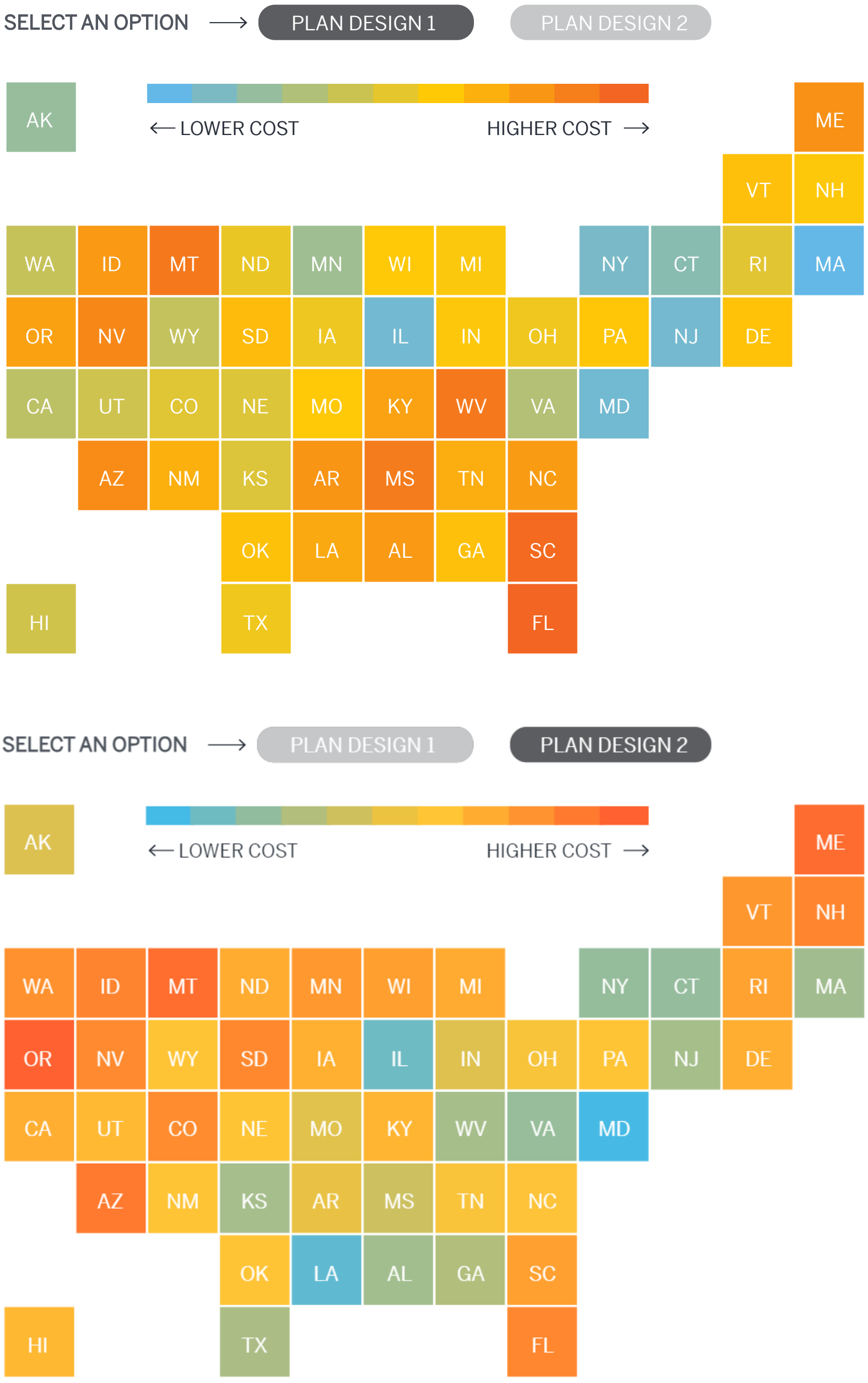
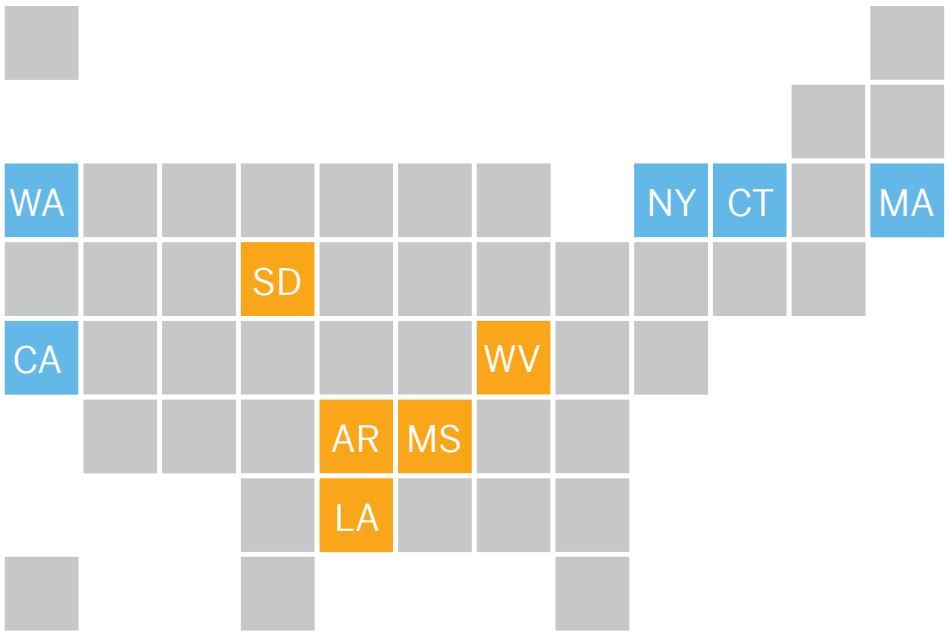


Figure 3 shows some of the drivers that can influence the tax rate for a state that implements LTC services.

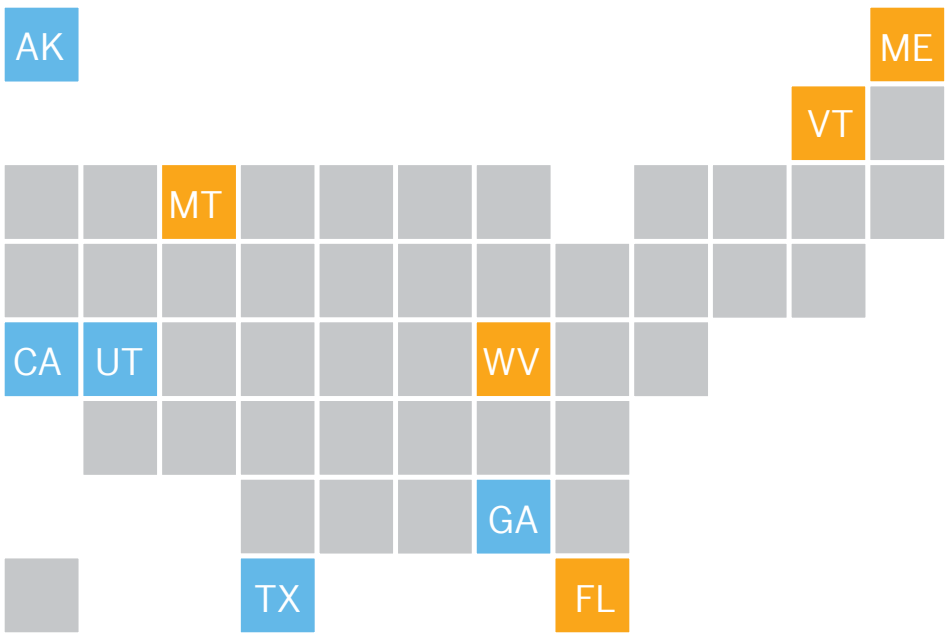
Figure 3

DRIVERS THAT INFLUENCE THE TAX RATE



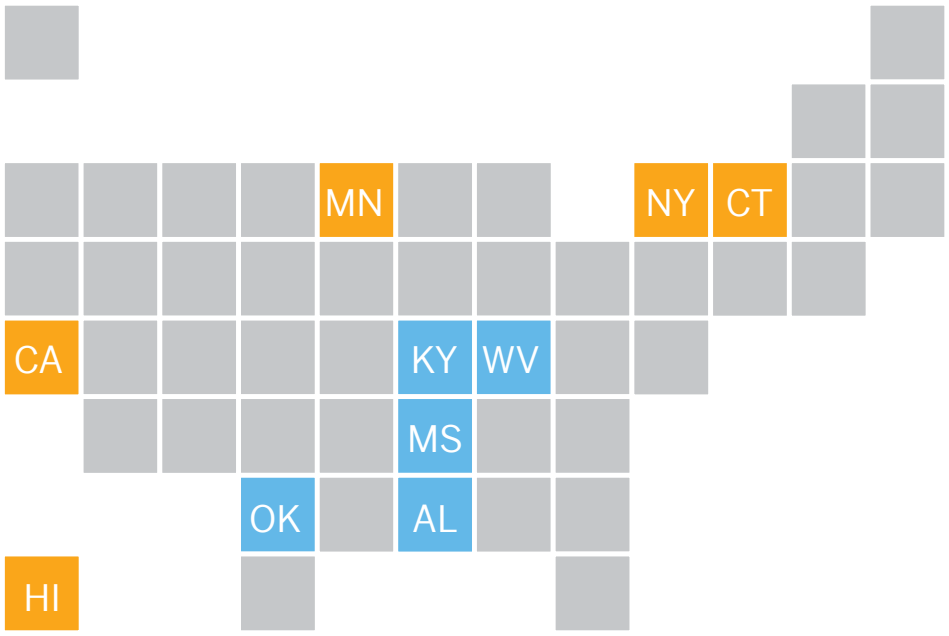
WAGES

Average wages between states can vary by upwards of 50%. The higher the average wages within that state, the lower the needed tax rate to fund the program, all else equal.



RATIO OF ELDERLY TO WORKING POPULATION

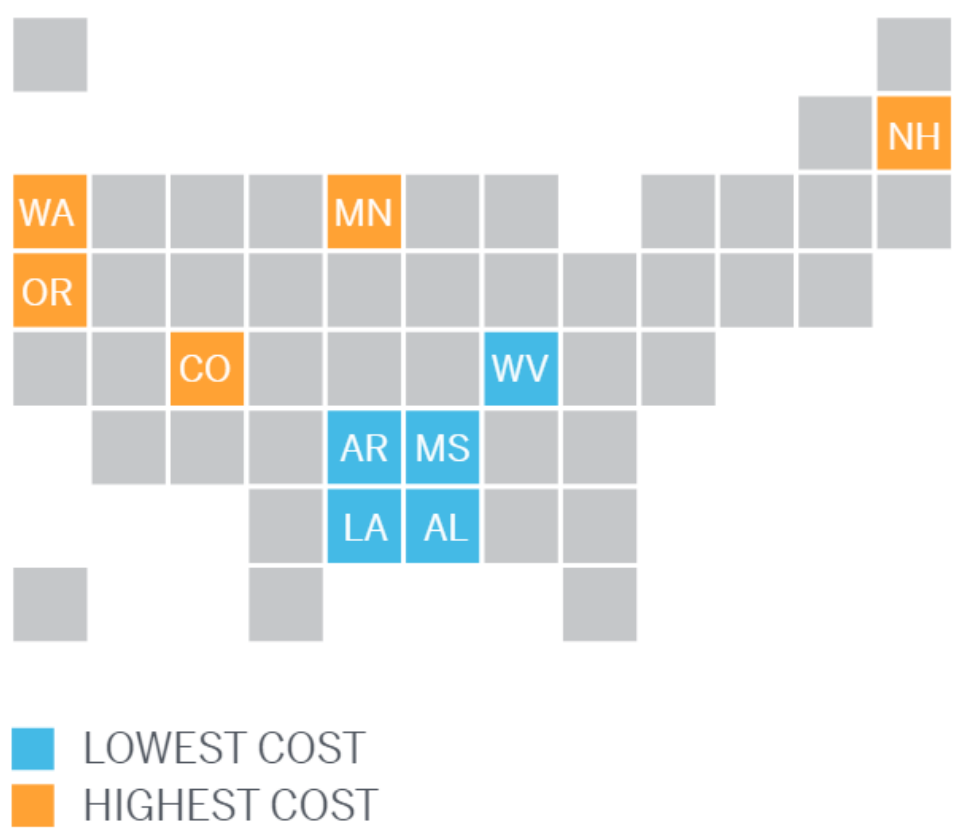
The proportion of elderly individuals relative to the working population within each state will cause differences in the tax rate. A higher ratio implies more covered beneficiaries and a smaller wage base to fund the services for those beneficiaries, which increases the needed tax rate, all else equal.



MORTALITY

Mortality refers to the rate at which individuals die. A higher mortality rate may contribute to a lower needed tax rate, all else equal, as more individuals pass away before incurring costs under the program.

Higher mortality states flagged here may not translate to lower tax rates in the graphic above due to the observed correlation between higher mortality and lower wages.



COST OF LTC SERVICES

The cost of LTC within each state will impact the needed tax rate. This impact can be analyzed by toggling between the buttons at the top of the graphic. States with a higher average cost of LTC will lead to a higher tax rate, all else equal, if plan benefits are tied to each state's cost of care.

Methodology and assumptions

We use Milliman's modeling software Integrate to project expenditures and lives by state. The following data sources are leveraged in developing tax rate estimates:

- **Starting population**: American Community Survey (ACS) five-year data release files.
- **Migration**: ACS county-to-county migration forecast.
- **Births**: Centers for Disease Control and Prevention (CDC) National Vital Statistics Report on births, trended using fertility rate projection from 2022 Old-Age, Survivors, and Disability Insurance (OASDI, or Social Security) Trustees Report.
- **Deaths**: Milliman LTC Guidelines with adjustments for general population, 2022 OASDI Trustees Report, and CDC age-adjusted mortality data by state.
- **Economic and investment income assumptions**: 2022 OASDI Trustees Report and U.S. Bureau of Labor Statistics (BLS) Occupational Employment Statistics.
- **Cost of care**: 2021 Genworth Cost of Care Survey, Milliman LTC Guidelines.
- **Vesting**: Social Security Earnings Public Use Microdata File.
- **Morbidity**: Milliman LTC Guidelines with adjustments for general population.

Limitations

The authors of this article are actuaries for Milliman, are members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

This information is intended to provide readers with an illustration of potential variation in tax rate on wages for state-run long term care insurance programs and introduce drivers that influence the tax rate. All estimates in this article are purely illustrative, and are not intended to represent any information proprietary to any organization. This information may not be appropriate and should not be used for any other purposes.

All opinions expressed in this article are strictly the opinions of the authors. Milliman is an independent firm and provides unbiased research and analysis on behalf of many clients. Milliman does not take any specific position on matters of public policy.

Further reading

Milliman is actively engaged in long-term care reform analysis across the country.

Read Milliman's 2022 WA Cares Fund Actuarial Study for additional details on Washington's program.

Visit https://www.milliman.com/en/health/long-term-care for more information.

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[1] Centers for Medicare and Medicaid Services (CMS). National Health Expenditure (NHE) Fact Sheet. Retrieved October 26, 2023, from https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/nhe-fact-sheet.

About the Author(s)

Chris Giese

Milwaukee | Tel: 1 262 7842250

Annie Gunnlaugsson

Milwaukee | Tel: 1 262 923 3643

Evan Pollock

Milwaukee | Tel: 1 262 9233657

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