

Long Term-Care Valuation

Finance & Administration Committee
September 15, 2020

Background

- Experience study done each year to ensure adequate funding
 - Demographic and economic experience reviewed
- Actuarial Office recommended revisions to assumptions:
 - Discount Rate
 - Morbidity Rate
 - Lapse Rate

Discount Rate Review

- LTC asset allocation performed every four years
- Mid-cycle review to assess progress of the program
- Picture has changed dramatically over the last two years

Discount Rate Review

6/30/2017				
Asset Class	Allocation	10yr CMA Geometric	20yr CMA Geometric	Long Term ROR
Global Equity	15.0%	6.80%	7.80%	8.90%
U.S Fixed Income	61.0%	3.00%	4.10%	5.54%
Commodities	6.0%	3.10%	5.02%	6.94%
Treasury Inflation-Protected Securities (TIPS)	6.0%	2.77%	3.60%	4.73%
Real Estate Investment Trusts (REITS)	12.0%	5.75%	6.40%	8.81%
Average Total		4.43%	5.44%	6.99%

Discount Rate Review

12/31/2019			
Asset Class	Allocation	10yr CMA Geometric	20yr CMA Geometric
Global Equity	15.0%	6.18%	6.89%
U.S Fixed Income	60.0%	2.04%	3.05%
Commodities	8.0%	2.43%	3.51%
Treasury Inflation-Protected Securities (TIPS)	6.0%	1.98%	2.60%
Real Estate Investment Trusts (REITS)	11.0%	6.27%	6.89%
Average Total		3.62%	4.51%

Discount Rate Review

- LTC Fund invested in mostly fixed income
 - Outlook for fixed income is lower than two years ago
- Program is closed and the average policyholder age is 75
 - 65% of funding needed in the next 20 years
 - Net negative cashflow expected to peak in 2039
- For these reasons, ACTO recommends a 4% discount rate

Valuation Results

Component	6/30/2018 (\$ in Millions)	6/30/2019 (\$ in Millions)
1. Present Value of Future Benefits	\$6,458	\$8,952
2. Present Value of Future Expenses	\$343	\$396
3. Present Value of Future Premiums (PVFP)	\$2,358	\$2,488
4. Valuation Liabilities (= 1 + 2 - 3)	\$4,443	\$6,860
5. Valuation Assets	\$4,471	\$4,734
6. Valuation Margin (= 5 - 4)	\$28	-\$2,126
7. Margin as a % of PVFP (= 6 / 3)	1.20%	-85.46%
8. Funded Status (= 5 / 4)	101%	69%

Valuation Results

	Change in Margin	Resulting Margin	Funded Status
Result from 2018 Valuation		1.20%	101%
Rollforward to 2019 with 2018 Non-Investment Gains and Losses	-0.22%	0.98%	101%
FY 2018-19 Investment Gain	3.99%	4.97%	102%
Model Improvements	3.31%	8.28%	104%
Morbidity Assumption Update	(25.54%)	(17.26%)	93%
Lapse Assumption Update *	(20.99%)	(38.25%)	84%
Discount Rate Change **	(47.21%)	(85.46%)	69%
2019 Valuation Result		(85.46%)	69%

* Includes very minor impact from mortality assumption update

** Includes very minor impact from expense assumption update