# Fiscal Estimate - 2017 Session

[X] Original [ ] Updated [ ] Corrected [ ] Supplemental

| LRB Number **17-5198/1** | Introduction Number **SB-758** |
|---|---|

**Description**
long-term care investment accounts and making appropriations

**Fiscal Effect**

**State:**

[ ] No State Fiscal Effect
[X] Indeterminate

[ ] Increase Existing Appropriations
[ ] Decrease Existing Appropriations
[ ] Create New Appropriations
[ ] Increase Existing Revenues
[ ] Decrease Existing Revenues
[ ] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [ ] No
[X] Decrease Costs

**Local:**

[ ] No Local Government Costs
[ ] Indeterminate

1. [ ] Increase Costs — [ ] Permissive [ ] Mandatory
2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
4. [ ] Decrease Revenue — [ ] Permissive [ ] Mandatory
5. Types of Local Government Units Affected
   [ ] Towns [ ] Village [ ] Cities
   [ ] Counties [ ] Others 0
   [ ] School Districts [ ] WTCS Districts

**Fund Sources Affected**

[X] GPR [X] FED [ ] PRO [ ] PRS [X] SEG [ ] SEGS

**Affected Ch. 20 Appropriations**

s.20.435(4)(b) and (4)(o)

| Agency/Prepared By | Authorized Signature | Date |
|---|---|---|
| DHS/ Angela Waltz (608) 266-5362 | Andy Forsaith (608) 266-7684 | 2/5/2018 |

**Fiscal Estimate Narratives**

**DHS 2/5/2018**

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| **Description**<br>long-term care investment accounts and making appropriations | | |

**Assumptions Used in Arriving at Fiscal Estimate**

Under current law at Wis. Stat. 71.05(6)(b)26, Wisconsin offers an incentive for individuals to purchase long-term care insurance by allowing an annual deduction from state income tax equal to the full amount of any long-term care insurance policy premiums paid during the tax year. The Department also operates the Wisconsin Long-Term Care Insurance Partnership Program under Wis. Stat. 49.45(31), which is a joint effort between the federal Medicaid program, long-term care insurance providers, and the State of Wisconsin. Under this program, an amount equal to the amount of benefits that an individual receives under a qualifying long-term care insurance policy will be excluded from the Medicaid eligibility determination. That amount will also be excluded when determining the amount to be recovered from the individual's estate if the individual received Medicaid.

This bill requires the Department to establish a long-term care (LTC) investment program, allowing individuals, married couples, domestic partners, and trusts (other than special needs trusts) to establish LTC investment accounts to cover LTC costs. Annual contributions up to $5,500 or $8,500 if over age 50 (indexed annually for inflation by the Department of Revenue) are exempt from state and local taxes, as is any interest, dividends, or other gains accrued, if redeposited in the account. Withdrawals are also exempt from state and local taxes if used to cover qualified LTC expenses, including LTC insurance premiums.

The bill requires LTC investment program administration, investment, and promotional responsibilities to be provided by a program manager, or multiple managers, through contract with the Department. The bill specifies that the contract for the administrative management of the LTC investment program must include a provision under which the program manager agrees to reimburse all administrative costs incurred by the Department related to the LTC investment program. As such, there are no anticipated GPR costs to the Department in operating the LTC investment program; all costs are expected to be recovered by the manager through client investment and account management fees.

This bill specifies that LTC investment account funds must be used to pay for long-term care expenses not covered by insurance or another public benefit program, long-term care insurance premiums, and funeral expenses. The bill also requires LTC investment account owners to spend down the income and assets in their account to a qualifying level prior to becoming eligible for Medicaid long-term care programs. Contingent on the number of account holders who spend down their LTC savings account in order to become eligible for a Medicaid long-term care program, there is potential for some amount of Medicaid cost savings as a result of this program.

The State of Nebraska has operated a LTC savings incentive plan since 2006, the only state to do so (although many states offer state tax credits or deductions for long-term care insurance premiums). Nebraska's experience suggests that statewide participation in a Wisconsin LTC investment account program might be very limited and annual future savings to the Medicaid program minimal. Since its inception, participation in Nebraska's LTC savings plan has been very low. As of 2014, there were only 506 LTC savings accounts in the state, with an average annual contribution of $1,470 and total annual contributions of $742,000. Only 82% of LTC savings account holders contributed funds to their account in 2014. A 2015 Nebraska Legislative Performance Audit Committee report concluded that the program is ineffective at encouraging Nebraskans to save for long-term care and has no noticeable impact on state Medicaid expenditures. The program will be discontinued effective January 1, 2018. Additionally, there are many competing investment vehicles for long-term care savings available to Wisconsin residents that offer fewer restrictions on the qualified use of funds.

Adjusting for differences in State population size between Wisconsin and Nebraska, but assuming that Wisconsin could enroll approximately the same proportion of the population and would experience similar annualized growth, within five years (calendar year 2022) Wisconsin could have around 1,250 individuals enrolled in the LTC savings program. Assuming that in the fifth year of the program, 25% of account holders would contribute the full $5,500, 50% would contribute half the allowable amount or $2,750, and 25% would not contribute to their account, annual calendar year 2022 contributions would be an estimated $3.4 million SEG. The number of individuals per year with LTC savings accounts who spend down to access Medicaid cannot be estimated. Thus, any future fiscal savings to the Medicaid program are indeterminate, but given anticipated low enrollment in such a program, this bill is unlikely to have a notable impact on reducing future state Medicaid long-term care costs.

**Long-Range Fiscal Implications**