Washington State Long-Term Care Payroll Tax Debuts January 2022

By Ryan H. FURTWANGLER, CFP®
Senior Financial Advisor

Alexander WOOD
Intern, HBK CPA & Consultants

THE STATE OF WASHINGTON'S Long-Term Care Trust Act, which was passed in 2019 and goes into effect January 1, 2022, makes Washington the first state to enact publicly funded, long-term care health insurance. The stated goal of the legislation is twofold: on one hand, to reduce the number of residents either uninsured or underinsured for their long-term care needs, but also to address the state's substantial Medicaid deficit, as Medicaid pays when people cannot fund their own long-term care.

The program will be funded by a payroll tax of 0.58 percent on anyone over age 18 who receives a Form W-2 (employment income). To vest in the program, an employee must pay the equivalent of 10 years of contributions in exchange for a maximum lifetime benefit of $36,500, adjusted for inflation.

Consistent with programs that apply to a general population, especially the most vulnerable populations — in this case seniors who have exhausted their assets and are unable to care for themselves — today's workers will pay for today's beneficiaries, much like Social Security. There is no income cap, so higher-earning individuals will incur taxes amounting to significantly more than the maximum benefit. For example, a 45-year-old individual with an average annual income of $500,000 to age 65 will pay an average of $2,900 per year, a total of $58,000. If they had invested those dollars and earned a 5 percent annual return, they would have saved slightly less than $96,000 at age 65. On the other hand, the median wage in 2019 in Washington was $69,000, which would produce $400 year in long-term care taxes, a total of $8,000 over that same 20-year period in exchange for the $36,500 benefit. Even invested at 5 percent, that $8,000 would only produce savings of $13,226.

Washington State projects the new tax will provide substantial relief to its Medicaid program. They project that by 2052 the new tax and system will reduce the impact to Medicaid by $3.7 billion. Without the new system, they estimate Medicaid spending will increase over that period from 6 percent to 12 percent of the state budget.

An employee can opt out of the program by attesting they have long-term care insurance.

BENEFITS

Benefits can be used to cover a variety of expenses, including professional in-home care, nursing, and other traditional long-term care services. They can also be used to pay for adaptive equipment, assistive technology, and home accessibility modifications that allow recipients to remain in their homes longer. Other covered services include support for family members providing care services, home delivered meals, and even rides to doctors' offices.

The rules for receiving benefits are more restrictive than in most long-term care insurance policies, which require that the insured be unable to do two of six activities of daily living (dressing, bathing, transferring, toileting, eating, and continence). The Washington program requires three of six to qualify. Cognitive impairment also qualifies a candidate, as it does for other long-term care insurance coverage. Benefits are not portable, that is, not available to people who move outside the state.

EXEMPTIONS

An employee can opt out of the program by attesting they have long-term care insurance. While that exempts them from the premium tax, it also leaves them permanently ineligible for coverage under the program. Individuals seeking exemption must apply between October 1, 2021, and December 31, 2022, and have a qualifying policy in force by November 1, 2021. Carriers report a flood of applications, and some are indicating they might not be able to issue a policy in time to meet the November 1 deadline. If an individual fails to secure a policy and apply within the time frame, they will be entered into the state program.

As well, taxpayers who do not receive a W2, such as business owners, are not included in the program, although they are able to opt into the program if they wish. And if they later become W-2 employees, they will be entered into the program and subject to the new tax.

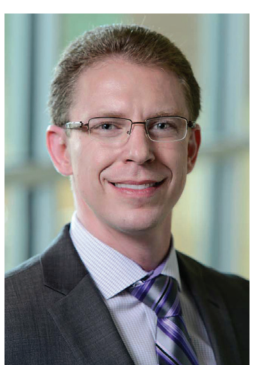
An individual opting out of the program and investing in an alternative financial instrument, such as a long-term care or other type of insurance policy, could have more resources to allocate toward long-term care as well as greater freedom with their asset base spend down. For example, using the same 45 year old making $500,000/year with preferred non-tobacco rating purchasing a universal life policy with a 4 percent long-term care rider and contributing $2,900 per year for 20 years could have an initial death benefit of $258,517, which could be accelerated for long-term care expenses at a rate of up to $10,341 per month until exhausted. Of course, there are many nuances to

A general rule of thumb: If you are a Washington resident with income under $100,000 the tax might be a better option.

insurance policies and our example is not an actual quote. Compare this to the $36,500 long term care pool.

A general rule of thumb: If you are a Washington resident with income under $100,000 the tax might be a better option, but in all cases this is going to be a very individualized decision and care should be taken in making that decision. Other considerations to factor in is your current health, insurability, timetable until retirement and where you intend to retire just to name a few.

It's easy to see how individuals could misunderstand this program, assuming it will cover all their long-term care needs or that it will at least return their contributions into the system. As well, there could be changes, such as eliminating opt out provisions, or raising the tax rate, or limiting payouts based on need. Whatever lies ahead for Washington, the state's Long Term Care Trust Act is bound to attract the attention of other states experiencing long-term-care-related Medicaid deficits.



Ryan H. Furtwangler, CFP®
Senior Financial Advisor, HBKS® Wealth Advisors

Ryan Furtwangler, CFP, is a principal and senior financial advisor in the Stuart, Florida, offices of HBKS. He enjoys working with the complexities relating to multi-generational wealth and estate planning, as well as income replacement strategies for people transitioning into retirement.

Alexander Wood is an HBK CPAs & Consultants intern and a student at the University of Richmond Robbins School of Business.