



May 11, 2021

Washington State Long-Term Care Program

Dear Client,

Starting on January 1, 2022, Washington State will begin deducting an additional payroll tax to fund a state sponsored long term care trust. Through this trust, Washington residents may qualify for limited long term care benefits after paying into it for at least six years. While this program may be appropriate for many Washington State residents, such as those with medium income and/or health conditions that may prohibit obtaining private insurance coverage, it may not be advantageous for you based on your individual situation.

Under current law, you have one opportunity to permanently opt out of the Program by having a qualifying Long-Term Care Insurance (LTCi) policy (as defined by RCW 48.83.020) in place by November 1st, 2021 and opting out with an application to the WA State Employment Security Department (ESD).

The basics of the program are as follows:

1. Premium tax is 58 cents per \$100 of income. There is no limit on the amount of income subject to the tax.
 - This means for every \$1,000 you make in 2022 and beyond, you will have \$5.80 deducted to pay for this new benefit.

ANNUAL COMPENSATION	ESTIMATED LTC TAX
\$100,000	\$580 per year
\$500,000	\$2,900 per year
\$1,000,000	\$5,800 per year

- The Bill states the tax is based on “wages”, including stock-based compensation, bonuses, paid time off, and severance pay, are subject to the tax.
- Will apply to all W-2 employees.

Sole-proprietors, partners, joint ventures and independent contractors have an option to elect into the program by January 1st, 2025. *(continued ->)*

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2. Coverage is not immediate; there is a vesting period. No benefits are payable till 2025.
 - The equivalent of 10 years without interruption for five or more consecutive years, or three years within the last six years
 - The law also requires the employee works at least 500 hours during each of the 10 years in the first option or each of the three years in the second option.
 - Not transferable – must be a current resident of WA State to collect benefits.
 - No coverage for a non-working spouse, only people paying the tax who meet the vesting requirement are eligible.

3. Long-Term Care benefits are very limited.
 - Program provides benefits of up to \$100 day, up to a maximum lifetime limit of \$36,500.
 - Unlike private insurance that only requires you to be unable to do 2 Activities of Daily Living (ADLs), the State Plan requires that individuals need assistance with 3 ADLs. Examples of ADLs are dressing, bathing, cognitive impairment, and other basic functions of your daily routine.
 - Benefits may also be paid to family caregivers, as long as they receive minimum levels of training.

Who may want to opt out?

- Higher income employees who could purchase a more robust LTCi policy for less premium than the payroll tax.
- Employees who are newer to the workforce and would thus pay into the fund for decades, ultimately paying more in tax than they would receive in benefit.
- Employees who plan on retiring before the benefits are available.
- Employees who plan on retiring outside Washington State or want the flexibility to do so.
- Self-employed individuals who are considering returning to work for another company where they would be a W-2 employee, and therefore, be subject to the tax.

Time Sensitive Action Required As Soon As Possible

If you are considering opting out or would like to discuss the new Washington State Long Term Care Mandate further, it is urgent that you contact our team as soon as possible, so that we can evaluate your individual situation and options available to you well before the November 1st deadline. Applications may take 1-3 months to fully process. If no action is taken, you will be charged this new WA payroll tax in 2022. This is your ONE and only opportunity to opt out.

Sincerely,
Alden Capital Management LLC

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