

Economic Sense - Twenty-Seventh Edition

SJR 8212: A Common-Sense Measure to Save Taxpayers Billions and Ensure Solvency of Long-Term Care Program

Bottom line up front:

Last year the Legislature adopted a payroll tax to fund long-term care benefits for eligible Washingtonians. The 0.58% tax on wages, which takes effect Jan. 1, 2022, equates to a \$290 cost for a \$50,000 annual wage earner.¹

However, modeling associated with this new program assumed investment returns that are likely unachievable under state law, calling very much into doubt the financial viability of the program at the 0.58% tax level. This will result in either a tax increase or the cutting of benefits.

It doesn't have to be that way. SJR 8212 is a common-sense measure that will help protect taxpayers and ensure the promised services are provided.

Background

Washington's constitution prohibits the state from having equity investments, meaning stocks and bonds (See Article 12, section 9 and Article 8, sections 5 and 7 ²). The founders were rightfully concerned that the state would subsidize or become beholden to private businesses.³

Yet, over the years, constitutional amendments have been proposed and approved by voters to relax that prohibition where appropriate⁴:

- In 1968, voters authorized the investment of public pension funds in equity investments (Amd. 49, passed with 72% “yes” vote).
- In 1985, voters authorized the investment of workers' compensation funds (Amd. 75, passed with 71% “yes” vote).
- In 2000, voters authorized investments of funds held in trust for persons with developmental disabilities (Amd. 93, passed with 65% “yes” vote).

[Senate Joint Resolution 8212](#) is simple, straightforward, and would follow in the footsteps of those other amendments, permitting funds in the long-term care services & supports account to be invested in in stocks and bonds, as authorized by the Legislature.⁵

Rationale for Constitutional Amendment

- **Prudently Maximizing Investment Returns Makes Sense:** The Long Term Care actuarial modeling by Milliman assumed a 5.3% long-term annual investment return.⁶ If the state, for example, were allowed to invest funds in the stock market and instead achieved a 6.4% rate of return, the investment returns would be **\$5 billion higher over 20 years** and **\$9 billion higher over 30 years.**⁷ These are funds that could be used to either lower the tax rate or expand benefits.
- **Long Term Care Program At Risk Due to Dubious Return Assumption in Milliman Actuarial Report:** In all likelihood, the benefits from SJR 8212 would be of even greater magnitude, as a 5.3% investment return far exceeds the state treasurer's average return (2.0%) and, absent a constitutional amendment, investments with the state treasurer are all that is allowed by law for these taxes.⁸ At that lower rate of return, the current tax rate will either have to be substantially increased to pay the projected level of enacted benefits, or benefits would have to be substantially reduced.

Conclusion

SJR 8212 is a common-sense measure that would save taxpayers billions and ensure the solvency of the state's long-term care program.

Footnotes

1. 2SHB 1087 (2019) -
<http://lawfiles.biennium/2019-20/Pdf/Bills/Session%20Laws/House/1087-S2.SL.pdf?q=20200214153523>
2. Washington State Constitution <http://leg.wa.gov/CodeReviser/Pages/WAConstitution.aspx>
3. The Washington State Constitution: A Reference Guide, p. 187 (Robert Utter & Hugh Spitzer)
4. List of Amendments to Washington State Constitution:
https://ballotpedia.org/List_of_amendments_to_the_Washington_State_Constitution