

Your Long-Term Care Insurance Rate Spiked. Now What?

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ABSTRACT (ENGLISH)

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FULL TEXT

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Karen Herzog, a retired high school teacher, bought a long-term care insurance policy 12 years ago because she didn't want to burden her only daughter if someday she could no longer care for herself.

Then a letter arrived in May that complicated her well-laid plan. Her monthly costs would double within two years, reaching nearly \$550 —a significant portion of her fixed income.

"Many of us will be forced to drop this policy," said Ms. Herzog, 73, of Ocala, Fla. "This was supposed to be my parachute."

Ms. Herzog reluctantly started paying a higher monthly premium while she weighed her options. But her insurer, Genworth —the nation's largest provider, with 1.1 million long-term care policyholders —said she might face another rate increase in eight years, when she's 81.

Long-term care insurers have been imposing significant rate increases for nearly a decade, and the problem has the attention of the regulators in each state, who must approve premium increases. The regulators' national group created a task force earlier this year to address the issue, although the effort probably won't provide much relief to people like Ms. Herzog.

"There is an inherent tension as a regulator," said Scott A. White, the Virginia insurance commissioner and chairman of the task force. "You want to protect consumers against rate hikes, but you also want to make sure the carriers remain solvent and are able to pay claims into the future."

Long-term care insurance can fill an important niche for many retirees. It covers what Medicare generally does not: long nursing home stays, health care aides at home, adult day care and parts of assisted living. Wealthier individuals can often pay for these costs on their own, while those with little money usually lean on Medicaid. The most common benefits —which are generally paid in the form of a daily benefit, say \$150 —pay for care at home, according to Bonnie Burns, training and policy specialist at California Health Advocates, a consumer advocacy group.

Those who bought policies had good reason: About half of Americans turning 65 will develop a disability serious enough to require long-term care services, according to a 2016 federal report. Most will need assistance for less than two years, but about one in seven will need it for more than five years.

Why are premiums swelling so much? There were several factors, but two of the more serious problems involved the predictions insurers made roughly two decades ago. Not only did they underestimate how long policyholders would live, they overestimated how many people would drop their policies, which meant insurers would not have to pay claims.

The financial pressures have left only about a dozen companies selling new coverage, down from more than 100 in

the market's heyday. For many existing policies, they're seeking rate increases. But not all states have granted them, which Mr. White said meant policyholders in certain states are subsidizing those in others. The task force is hoping to address the unpredictability and lumpiness of these pricing shocks.

But that's little comfort for policyholders who have already received notices for price increases. Regulators approved higher premiums on at least 84,000 policyholders at Genworth alone during the second quarter, according to a sampling of filings recently analyzed by S&P Global Market Intelligence.

Deciding whether to renew one of these policies can feel like an impossible calculation, and there's a lot to consider. Insurers generally provide policyholders with several options in between accepting a full rate increase and canceling the policy.

"Not every company is doing the same thing in the same way and when they present these options to consumers, they are totally confused by them," Ms. Burns said. "But they can reduce the effect of the rate increase."

As hard as it may be to accept, it could make sense to pay the higher rate if you can still afford it. Buying a similar policy would likely cost far more now, and the same level of coverage is often not available (if you're even still insurable). "It's technically still a deal relative to what coverage costs today," said Michael Kitces, director of wealth management at Pinnacle Advisory and publisher of the Nerd's Eye View blog.

But many people won't be able to absorb the full increase, so cutting benefits may be the next best option. That can include reducing the period for which the policy pays benefits, the daily amount of the benefit, and the inflation rate at which the daily benefit grows.

Mr. Kitces suggests considering the cuts in a certain order. If your policy pays benefits for more than five years, consider shaving that back first, since few people need it that long, he said.

If you still want to reduce your premium, your choice could depend on your age. If you're in your 70s or 80s—or have held the policy for a while and have already seen benefits grow—consider reducing the inflation rate. If you're in your 50s or 60s, you might be better off reducing your daily benefit rate, particularly if that amount is higher than the typical cost of care in your area, and letting it grow with inflation.

Your insurer might be able to offer other solutions if you ask. "You can call and sometimes they will be flexible with giving you other options that were not in the package sent in the mail," said Jesse Slome, executive director of the American Association for Long-Term Care Insurance, a trade group.

If you simply cannot afford to pay any longer, you might not have to walk away with nothing. You may be able to convert your old policy to a new one that is worth the amount of premiums you already paid.

Ms. Burns, from the advocacy organization, said she worried that some insurers could steer people to this option because it reduces their liability. That's why she encourages people to seek help when re-evaluating your policy. She suggests contacting a counselor through your state's health insurance assistance program.

The lingering effects of the industry's early miscalculations have made some policyholders—including Ms. Herzog—worried about their insurers' long-term viability. (Genworth, which agreed in 2016 to sell itself to the investment firm China Oceanwide, said carriers were required to set aside a certain level of assets to support their ability to pay claims.)

"We've had more companies get out of business than are in it, and they are still paying legitimate claims," said Brian Gordon, president of MAGA Long Term Care Planning, "We are still very comfortable even though some of them are not writing new policies."

Insurance company failures are rare, but the long-term care world does have a recent example: Penn Treaty was liquidated in 2017. But experts point out that Penn didn't have other lines of business to offset its problems, like many other providers do.

Should a long-term care insurer end up like Penn Treaty, state guaranty associations generally provide at least \$300,000 in benefits for policyholders through a safety net that is funded in part by other insurers, according to the National Organization of Life & Health Insurance Guaranty Associations.

But for the majority of policyholders, the biggest worry will remain price increases. The regulators' task force may work to even out the differences in increases experienced by policyholders across different states, but that could

mean higher costs for people who have thus far been spared.

"Long-term care is a problem for the whole U.S. and for many seniors who paid into these policies," Ms. Herzog said. "I live alone. Who is going to take care of me?"

DETAILS

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