Long-term care for seniors is on life support

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This August, two of the country's biggest insurance companies, MetLife MET) and Unum UNM), will be front and center before the Florida insurance commissioner. They'll have to explain why they're asking some of their 70,000 policyholders for double the amount they paid in premiums last year.
Florida Insurance Commissioner David Altmaier is taking issue with their policies for long-term care, a subject that resonates with the nearly 20 percent of the state's population who are senior citizens. Many of these people bought long-term care LTC) insurance to protect themselves against the rising cost of nursing home and medical care in their final years.
But now they're all too often losing their coverage — and the money they already put in — because soaring annual premiums will force them to give up their policies. Some may end up on the Medicaid rolls.

Florida isn't alone. "The bottom line is that LTC policyholders throughout the U.S. are experiencing horrendous rate increases — and have been for the past three years," said Executive Director Amy Bach of United Policyholders, a consumer watchdog group that focuses on insurance.
The two insurance carriers caught in Florida's crosshairs are the nation's largest life insurer, MetLife, and the country's biggest carrier of disability insurance, Unum. Even though MetLife reported net income of $3.7 billion at the end of last year, it's still asking for rate increases of 20 percent to 95 percent for LTC policies. "If this rate filing is approved as requested, the average annual premium would go from $1,593 to $2,580," according to Florida insurance office.
Unum is proposing rate increases from zero percent to 114 percent, Florida said.
Both companies have realized that they made a big mistake selling these policies because both have stopped selling them. But unfortunately for insurers — and their clients — erroneous assumptions can go on costing them millions, and even billions, for generations. Exposure to asbestos losses from diseases like lung cancer nearly wiped out the venerable Lloyd's of London 30 years ago.
So just what went wrong with LTC? "When Unum entered the LTC business in the late 1980s, we determined our prices using the best data available … about how future experience would develop," said Unum spokesperson Mary Guenther. But over the course of four decades, those assumptions proved very

wrong.
For one thing, people are living longer. U.S. life expectancy rose two full years between 2000 and 2014, from age 77 to 79, and it keeps going up, according to the U.S. Centers for Disease Control and Prevention CDC).
Second, LTC insurers had counted on socking away the premiums they collected at high interest rates in order to reap healthy returns, but they were wrong again. As anyone with a bank account knows, interest rates are close to zero and have been extraordinarily low ever since the 2008 recession.
The third mistake: Seniors got smarter. Insurers counted on people forgetting about their policies and letting them lapse, in which case the money paid was went back into the insurance company's coffers to pay other claims. But instead seniors held onto their policies, leading to more claims than insurers anticipated.
And finally, when seniors did file a claim, they tended to collect their money for a lot longer. Lingering diseases such as dementia and Alzheimer's didn't end their lives as quickly, so seniors stayed longer in nursing homes.
Not a pretty picture for seniors or for the insurers that have steadily withdrawn from the business. Older Americans purchased 750,000 traditional LTC policies in 2000. But that dropped to 105,000 in 2015, according to the American Association for Long-Term Care Insurance. Most of that decline resulted from many traditional companies, like Allianz ALV), Guardian, MetLife, Prudential PRU) and Unum, exiting all or most of the LTC business.
But getting out of LTC isn't as easy as trading in a used car. About 7 million seniors have these policies. So while many insurers refuse to sell new coverage, they still have to service "the closed block" of people who bought it and are still running up the costs.
Insurers have several answers for this. One is to reduce the coverage whenever they can: adjusting what people get, making them wait longer before they can get care and finally, decreasing their benefits when they do go into care. "MetLife continues to offer ways to mitigate the impact of rate increases through the use of benefit decrease options," said MetLife spokesperson Judi Mahaney.
But ultimately it often comes down to hiking premium rates, sometimes by almost astronomical amounts, which is what's happening in Florida. And that raises the hackles of consumer advocates throughout the country. "100 percent increases make no sense," said Robert Hunter, director of insurance for the Consumer Federation of America and a former Texas insurance commissioner. "How can care that takes decades to develop have such a sudden change?"

Ultimately LTC coverage is "illusory," said Hunter, since the insurer can simply jump the price. The result:

“Many seniors have had to drop their policies because they couldn’t keep up with the increases,” Bach said. Those people not only have to pay their own way for their future care but they may have lost all the money they put into these policies earlier on.

So LTC represents a loss for both sides. But Florida is quick to point out that seniors have a lot more to lose than the insurers, who had huge reserves in 2015. MetLife had a surplus of $14.5 billion, and Unum had a surplus of nearly $1.6 billion.

But those surpluses extend throughout each company, and what these insurers say they’re trying to do is make their LTC block “self-sustaining,” that is, pay its own way. That’s not good enough for consumer advocates.

“We try to shame [insurers] into not approving successive rounds of rate increases,” said United Policyholders’ Bach, but she admitted that “it hasn’t made much of a dent.”

Perhaps a small dent. Unum spokeswoman Guenther said her company now offers a “nonforfeiture option” that allows policyholders not to pay future premiums and receive a benefit equal to the premiums paid to date.

For older seniors who lose their policies, the fallback is probably their own bank accounts and homes. But for younger seniors considering LTC coverage, which many insurers still offer online and through agents, it’s buyer beware.

Insurers have learned their lesson. LTC policies now mostly come as “hybrids,” with a life insurance rider. You pay in and the money can be used — as long as it lasts — for nursing homes or other care. Or it can be a death benefit to your heirs.

But given the complexity of LTC — and its past history — it might be wise to get some financial advice before purchasing one. Or simply save for long-term care in your old age and hope for the best.