Premiums Rise for Long-Term Care Insurance. Keep It or Drop It?

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By ANN CARRNSThe New York Times, MARCH 21, 2014Every day, Jesse Slome says, about a half-dozen people contact his office at the American Association for Long-Term Care Insurance, a group for industry professionals, to complain about premium increases on their policies.Financial planners, too, are hearing from their clients. “We’re definitely seeing a lot of increases, especially for older policies,” said Clarissa Hobson, a financial planner with Carnick & Kubik in Colorado Springs. Some increases are as much as 40 to 60 percent, she said: “It’s pretty dramatic.”The calls are unlikely to end anytime soon; major insurers have been successfully seeking state approval to raise premiums on existing policies, and the increases are typically phased in over several years.Long-term care insurance helps cover the cost of care you may need as you age. Unlike health insurance, long-term care insurance covers help with daily activities like washing, dressing and bathing. Medicare, the federal health program for older Americans, generally doesn’t pay for long-term care. So if you don’t have long-term care insurance, you’ll need to pay for such costs out of pocket, unless you have very little income and can qualify for Medicaid, the federal-state health program for low-income people.But big losses on improperly priced policies issued more than a decade ago have prompted some insurers to exit the long-term care insurance business altogether. Those remaining in the business are trying to stem the tide of red ink by seeking approval from state insurance commissions for premium increases. This is upsetting for consumers, many of whom bought policies in the belief that premiums for their individual policies wouldn’t change. But insurers may seek increases for large pools of policies over all, and have been doing so.Genworth Financial, the largest seller of long-term care policies with roughly 35 percent of the market, began seeking increases on its existing policies in late 2012, with the goal of raising from $250 million to $300 million in additional premiums by 2017. By the end of last year, the company said, it had received approvals for rate increases from 41 states, representing roughly $200 million of the expected premium increase. The increases are being phased in over five years.Thomas J. McInerney, Genworth’s chief executive, said in a recent phone interview that the industry over all made incorrect assumptions when it set premiums for

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older policies — particularly, those issued before 2002 — and didn't set rates high enough. For instance, far fewer people than anticipated let their policies lapse. And interest rates in recent years have been much lower than expected, making it difficult for companies to earn adequate returns on invested premiums.The company needs premium increases of 50 percent, on average, for the older policies, to break even, he said. "We'll never make money on them."Mr. McInerney said when informed of a significant increase, however, a majority of Genworth's holders have kept their policies and paid the higher premium.Here are some questions to consider if you get a notice of a premium increase:■ If I get a big increase, should I cancel my policy and shop for a new one?It's very unlikely, if you've had your policy for more than a year or two, that you will be able to buy a newly issued policy at a better rate, Mr. Slome said. It will most likely be harder to qualify for a new policy anyway, because you're older than when you purchased your original policy, and underwriting standards have become much tougher.■ How can I decide if I should pay the higher premium, or opt for reduced benefits?Howard S. Krooks, an elder law specialist in Boca Raton, Fla., said he generally advised clients that if the increase was 20 percent or less, they should "bite the bullet" and pay it, even if they thought it was unfair. If the increase is much higher, or if the new amount is a true stretch for them, however, they may consider reducing their benefits — for instance, by accepting a daily benefit amount of $250 or $300 a day, rather than $350 — to keep the premium down.■ Are there other ways to reduce my premium?You may be able to accept a lower rate of inflation protection in exchange for a lower premium, said Vincent J. Russo, an elder law lawyer in New York. If your existing policy increases your benefit by 5 percent annually as an inflation hedge, for instance, you may be able to reduce it to 3 percent, or drop inflation protection entirely. (Ms. Hobson warns, however, that you should check the details of your policy, to make sure you're not agreeing to have the lack of inflation protection retroactively, which would substantially reduce your ultimate benefit.)■ If I can't afford the new premium and cancel my policy, will I lose all the money I've paid over the years?Most insurers offer an option that lets you obtain benefits equal to the premiums you've paid, if you end the policy. So if you had paid $20,000 in premiums, you would be eligible to receive $20,000 in benefits, assuming you meet the criteria for a claim. This should be considered a last resort, however, lawyers say; it won't pay for anywhere near as much care as your policy would, if the policy remained in full force.Email: yourmoneyadviser@nytimes.comA version of this article appears in print on March 22, 2014, on page B7 of the New York edition with the headline: As Premiums Rise, Drop Long-Term Care?.

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