

Long term care insurance cost leaps

Long-term care insurance is an important consideration of any thorough financial plan. It's also becoming a significantly more expensive consideration with less choice available.

Large carriers John Hancock and Genworth have announced substantial premium increases and MetLife will stop taking new business altogether at the end of the year. MetLife will continue to honor existing policies but at the same time has proposed to increase premiums as much as 44 percent on current policies. Hancock (40 percent) and Genworth (18 percent) have also requested premium increases that far outpace general health care inflation. Thousands of South Sound residents who are among the eight million LTC policyholders in the United States will be impacted. LTC insurance provides coverage for the cost of extended in-home care, assisted living or nursing home care - instances that Medicare does not cover.



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Aside from plain outliving their money due to longevity, long-term health care costs are the biggest risk to most retirees. A year in a 24-hour care nursing home can cost \$90,000. Assisted living can easily run up a \$40,000 annual bill and in-home aide averages \$21 per hour. Due to the cost, many people who do not have LTC insurance receive care from family members who are uncompensated.

A DIFFICULT PRODUCT TO PRICE

A confluence of several issues has made it harder for Hancock, MetLife and other carriers to provide benefits at a premium rate that makes business sense. Insurance carriers take in premiums and invest the money with the intention of growing the pool from which they pay out benefits. With low interest rates, conservative investments aren't growing as quickly as insurers need.

Compound this with the fact that more people are actually holding on to the insurance and using it and insurers find it necessary to either raise premiums or exit the business.

Insurers cannot raise premiums on any specific insured person for health reasons. They can only raise premiums on a whole class of insureds. For example, an insurer could raise premiums only on policyholders with standard ratings and not on those with preferred ratings due to better health. Premium increases have to be approved by each state's insurance commissioner.

While it can be viewed as a troubling sign that some insurers can't efficiently offer the products, it can also be a sign of industry maturity and ultimately a more stable future. The LTC insurance is new enough that the industry is now getting a better understanding of the actual claims experience of policyholders in an aging society.

Because this experience has been more costly than industry models predicted, it turns out that policies currently in existence may have actually been offered too cheaply.

Of course, nobody likes unpredictable price increases. And it can be hard to see the benefit in an expensive product that ideally will never be used. That's why many people choose the cross-your-fingers insurance policy, hoping for good health with costs covered by traditional health insurance.

RISK PROTECTION CAN BE VALUABLE

The peace of mind associated with protecting against a growing risk (remember, the policies are becoming more expensive because they are actually being used to claim benefits) can be valuable.

If you already have a policy and the cost is rising:

- Consider that the breakeven period may still be fairly short. Even if you pay \$100,000 in premiums over a

couple of decades, it would require only 15 months in a nursing home or 21/2 years in assisted living to offset the premium cost.

- You can choose to continue paying your existing premium but have the benefits reduced accordingly. This may become a necessity if you're on a tightly fixed income.
- Before you decide to drop your policy and self-insure, understand that any amount ultimately used to fund uncovered costs will not be available to fund your other intentions for your money. With the insurance, you're essentially protecting some of your savings to be used for more preferred goals.

If you are considering an LTC policy for the first time:

- Choose an insurer with good financial strength and a history of rate stability. Purchasing the least expensive policy today may just lead to large premium increases tomorrow.
- Buy while you're still in relatively good health, before your mid-60s, to avoid the potentially high costs of waiting.
- Consider shared benefits with a spouse or family member. This can substantially reduce the premium.
- Make sure the policy has inflation protection.
- Consider whether you want benefits to last for your lifetime or to apply to a specific period, such as three years. Just 25 percent of long-term care claims last longer than three years.
- You can keep premiums down by purchasing enough insurance to offset some LTC cost but not fully funding a potential three-year, or longer, stay in a nursing home. Nursing home claims represent just 30 percent of all claims.

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