Long Term Care Insurance Premiums On The Rise

by Boston Globe, September 06, 2013

Health Insurance News -- Sharp increases in rate requests for long-term care insurance are raising the chances that the next wave of retirees may not be able to afford coverage for assisted living, nursing homes, and related health services.

Since early 2012, the Massachusetts Division of Insurance has regularly approved premium increases of about 10 percent for the insurance, which was introduced in the 1980s as a hedge against the high and extended costs of nursing care. Regulators are now reviewing requests by some companies to nearly double their rates -- potentially increasing premiums by thousands of dollars a year.

For many retirees, the increases are hitting as they come closer to needing the care, leaving them with the choice of devoting more of their fixed incomes to the insurance, reducing benefits, or dropping the coverage. AARP, the powerful lobby for older Americans, is warning consumers to make sure they'll be able to afford rapidly rising premiums before they buy long-term policies.

"If I knew it was going to be like this, I wouldn't have bought it," said George DiBlasi, 71, who purchased a long-term care policy from John Hancock Financial Services in 2007 and recently received a notice his premiums will rise 10 percent, to $3,300 a year. "They sand-bagged us."

DiBlasi, who retired as Norwood police chief in 1998, said he'll keep paying for now, since he has already invested so much in the policy and doesn't want to stick his family with long-term care costs they cannot afford.

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More than 150,000 people in Massachusetts hold long-term care policies, either individually or through their employer. About 8 million Americans carry the insurance.

Across the country, insurers that offer the coverage have asked state regulators for double-digit rate increases in recent years. The average cost of a policy has jumped 80 percent for a 55-year-old couple, to more than $3,500 annually last year from less than $2,000 in 2007, according to industry statistics.

“Consumers should be aware that they may be in for additional rate increases,” said Joseph G. Murphy, commissioner of the Massachusetts Division of Insurance.

Long-term care insurance was designed to fill the gap between Medicare, the health insurance for the elderly that only covers short-term rehabilitation and recovery services, and Medicaid, the program for the poor that pays for long-term care after a senior exhausts assets and meets income requirements.

The costs of such care, meanwhile, continue to skyrocket. A home health aide costs an average of $55,370 a year in Massachusetts, while the annual price of a semiprivate room in a nursing home is more than twice that, according to a survey by Genworth Financial Inc., which sells long-term care policies.

In addition to escalating health care costs and longer life expectancies, several factors contribute to the rising expense of long-term care insurance. Insurers made mistaken assumptions in past years that led them to set prices too low, meaning they need higher rates now to make up for it.

The industry initially projected between 3 to 6 percent of policyholders would stop paying and drop their policies before they collected benefits, but less than 1 percent did.

Compounding the problem are low interest rates. When the companies developed and sold the products in the 1980s, they assumed interest rates would hover around 7 percent. That would allow them to generate income from the premiums they collected, said John O’Leary, a long-term insurance consultant in North Andover.

But rates in recent years have been running less than half that. The rate on the 10-year Treasury, for example, was 2.90 percent Thursday.

Several companies have subsequently left or pared-down their long-term care business. Metropolitan Life Insurance Co. of New York and Unum Group Corp. of Tennessee were top insurers in the market a few years ago, but both have discontinued sales of new policies.

Prudential Financial Services, a New Jersey company, no longer issues individual policies. And John Hancock, a unit of Canadian-insurer Manulife Financial Corp., is no longer issuing group policies.

In Massachusetts, Prudential, MetLife, and Hancock have each received average rate increases of 10 percent since 2012, and Genworth Financial Inc., which holds the largest share of the national long-term insurance market, received permission to cut discounts for couples.

Rick Fingerman, a financial planner in Newton, said the increases have been disconcerting to his clients, but they’re keeping the plans, believing they have little choice.

They've taken care of spouses or family members, Fingerman said, and "they've seen how devastating the costs can be."

Leola Moss, 70, of Arlington, plans to pay an 18 percent premium increase, or nearly $1,000 a year more, on her Hancock policy, at least for now.

She discovered how expensive long-term care can be after her husband, who died four years ago, was diagnosed with ALS, a progressive neurodegenerative disorder known as Lou Gehrig's disease. They needed aides to care for him at home, which they covered with savings and his disability insurance.

"I had the experience of these things do happen," she said, "and they can be quite expensive."

Melissa Simon Berczuk, a spokeswoman for Hancock, said the company offers alternatives to policyholders facing rate increases so they can keep premiums close to their current levels. They can reduce their coverage, including the number of years they receive benefits or the amount of monthly payout.

"No carrier takes pleasure in raising rates, or doing anything that is disruptive to their insureds," said Berczuk.

The premium increases must be approved by state insurance commissioners, who are required to balance the impact on consumers with the need to keep the companies solvent, so they can pay future claims.

In Massachusetts, the state hasn't formally denied any rate request, though it has worked with the companies to lower the increases, regulators said.

Insurance commissioners, industry officials, and consumers say they hope the long-term care market stabilizes, because many doubt taxpayer-funded programs such as Medicaid will be able to absorb all the costs of caring for an aging population.

For many older Americans, there are few alternatives aside from sticking with long-term care insurance, even if it means paying more, reducing their benefits, or both, said Sally Hurme, a senior project manager for AARP.

"The overall problem of how am I going to afford long-term care -- the answers are not there," Hurme said.

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