Long-Term-Care Insurance: Not Going According to Plan

•Fewer Choices •Higher Premiums •Limited Coverage

Insurance companies and consumer advocates say you should consider long-term-care insurance for your later years. However, ever-increasing premiums, combined with fewer insurance companies that are willing to provide such policies, make long-term-care insurance a tough buy.

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Kenneth Ribyat, 64, has sold long-term-care insurance for 2 decades. He and his wife own policies, and he believes that the coverage will benefit them down the road if they need assistance around the home or have to move into a nursing home or an assisted-living facility.

Nevertheless, Ribyat is dismayed by the long-term-care insurance industry. He says that in the past 5 years, the industry jacked up premiums by at least 50 percent on average for consumers who bought coverage 1–2 decades ago.

Rate changes are common in the insurance world, but Ribyat says the extreme increases in long-term-care insurance recently are instances of insurance companies taking advantage of consumers.

"They really screwed up," he says of insurance companies.

A number of financial mistakes, combined with low interest rates since the recession began in 2008, caused insurance companies to anticipate that they would become unprofitable on their long-term-care insurance policies, Ribyat explains. To increase their bottom line, he says, they held the longest term owners of long-term-care insurance responsible for their own bad math. The result is that consumers who are age 80 or older are in danger of being priced out of their long-term-care insurance at the time that they expect to use it.

"How can you come in and undo that, when the whole idea of insurance is to be able to plan?" Ribyat says.

An estimated 7 million U.S. consumers own long-term-care insurance, which covers people in the event that they become unable to perform basic daily functions. However, it's becoming more expensive not only for consumers who have it but also for those who want it. According to America's Health Insurance Plans (AHIP), which is a trade association, the average long-term-care insurance premium in 2005 for a consumer who was age 55–64 (the age group that's most likely to buy coverage) was $1,877. By 2010 (AHIP's most recent data available), the cost for the same age group jumped by 20 percent to $2,255. Meanwhile, benefits are being scaled back. Although long-term-care insurance can be a good investment, the group of people that can afford it is shrinking.

WHY BUY? Long-term-care insurance is a significant expense, but everyone from insurance-industry watchdogs and regulators to the 10 experts with whom we spoke agree that it's worth having in many cases.

Most people require long-term care at some point, says Joe Caldwell of National Council on Aging (NCOA). According to a 2012 report from Department of Health and Human Services (HHS) that cited a 2005 study, roughly 70 percent of people experience sufficient functional disability that requires assistance with daily living skills after they turn 65. On average, they require about 3 years of help. However, only about 10 percent of people who are older than 60 have long-term-care insurance, Caldwell says.

Typically, long-term-care insurance kicks in when a beneficiary can't carry out at least two basic activities of daily life—eating, getting in or out of bed or a chair, getting dressed or using the toilet. A policy that provides, for example, a $200-per-day benefit can pay a home-care worker to assist with those activities at home. The policy also could defray the expense of therapy, hospice care, a nursing home or an assisted-living center.

Such services can be quite expensive. For example, according to a 2012 survey by insurer MetLife, a private room at a nursing home cost an average of $248 per day, or $90,520 per year. A semiprivate room averaged $222 per day, or $81,030 per year.

These expenses generally aren't covered by standard **health**, **life** or disability insurance. Medicare and Medicaid don't take up the slack, either. Medicare pays for some long-term care at home or in a nursing home but only under stringent rules and when a person also needs skilled medical attention.

Medicaid covers long-term care in nursing homes but only after the beneficiary has exhausted his/her financial resources to the bare minimum. The qualification level is determined by each state, but typically it's as little as $2,000 in assets. Even if the beneficiary qualifies for home care through Medicaid, he/she might encounter a waiting list to receive that coverage.

"The number of individuals on waiting lists has more than doubled over the past decade," Caldwell says. States aren't required to maintain waiting lists for residents who apply for Medicaid, so Caldwell says it's difficult to say how long on average that a consumer should expect to wait. Anecdotally, however, he says some people have had to wait 20–30 years. Unfortunately, even if you qualify for Medicaid coverage, the program covers only 100 days in a nursing home, says American Association for Long-Term Care Insurance (AALTCI), which represents agents who sell long-term-care insurance.

GAME CHANGE. If you're interested in buying long-term-care insurance, you should be aware that it's more difficult now for newcomers even to get a policy. The combination of factors that led to soaring premiums also led to a narrowing of the market for long-term-care insurance, which, of course, further affects pricing.

In 2012, fewer than 20 insurance companies sold long-term-care insurance, according to a survey by LIMRA, which is a research organization that's supported by the insurance and financial-services industries. That's down from at least 100 in the late 1990s and 33 in 2002.

As for the companies that still provide long-term-care insurance, coverage is becoming increasingly limited. Lifetime benefits, for example, rarely are a part of long-term-care insurance any more, Ribyat says. Instead, insurance companies now limit benefits payouts to a maximum of 10 years. After that, you're on your own, or you must rely on Medicaid.

Furthermore, Caldwell says insurance companies also routinely require prospective buyers of long-term-care insurance to undergo medical tests or provide medical records. Although this isn't new, Caldwell tells us anecdotally that in recent years, insurers have become much more stringent about their underwriting criteria. This results in applicants who have pre-existing conditions being charged a higher premium or denied coverage altogether.

For example, 12 percent of new applicants who are below the age of 50 are denied long-term-care coverage for health reasons, according to Jesse Slome, who is the executive director of AALTCI. His group conducted a survey of long-term-care insurance applications in 2012 that also found that 17 percent of applicants who were between the ages of 50 and 59 were denied for medical reasons (compared with 11 percent in 2011), as were 25 percent of those who were between the ages of 60 and 69 (compared with 24 percent in 2011), and 44 percent of those who were between the ages of 70 and 79 (compared with 41 percent in 2011). Typically, long-term-care insurance isn't sold to people who are ages 80 and older, because most people who are that age would fail the medical requirements that are necessary to secure the insurance.

Those who were lucky enough to buy long-term-care insurance before the market changed are enduring a different type of difficulty—sticker shock. In 1990, Ribyat's parents each bought a long-term-care insurance policy that had lifetime benefits, a 5 percent annual increase in its daily benefit payment and no *elimination period*, which is when benefit payments are delayed by a predetermined number of days. The total cost was $3,280 per year. Although increases to premiums occurred intermittently between 1990 and 2013, Ribyat says the insurance remained affordable—$5,635 per year.

However, in July 2013, his parents were told that their premiums would rise 45 percent to an unaffordable annual total of $8,171 if they wanted to keep their same coverage. Ribyat says his parents instead agreed to increase the elimination period to 90 days and reduce their benefits to a maximum of 6 years. Their annual premiums still rose to a total of $6,060, Ribyat says.

Such increases to premiums have to be approved by state insurance commissioners. However, Ribyat says the language in long-term-care insurance agreements is tilted toward the insurer. The result is that insurers, depending on the state in which they provide policies, might have a lot of leeway to raise rates or limit coverage as they see fit.

You won't suffer alone if you're subjected to a rate increase in your long-term-care insurance premium, Ribyat says. Insurance companies can raise premiums only on a *class*—a group of people who bought policies at a certain time, such as people who were ages 55–64 in 1998, Ribyat says.

Employer-sponsored long-term-care insurance premiums also are on the rise. California Public Employees Retirement System (CalPERS), for example, announced increases of either 79 percent over 1 year or 85 percent over 2 years starting in 2015 for an estimated 100,000 policies that were sold before 2005. To avoid the increase, policyholders can alter their coverage by exchanging the lifetime benefits of their policies for payouts of no more than 10 years.

If CalPERS hadn't increased premiums or sought changes to the policies' benefit structure, the system's long-term-care fund might not be able "to cover the benefits for policyholders who will need them in the future," the system's website claims. Bill Madison, who is a CalPERS spokesperson, tells us that the increases, benefit changes and other steps, such as becoming more conservative with assets that are in the agency's long-term-care fund, should make future premium increases unnecessary. He didn't rule out the possibility, however.

A group of policyholders filed a class-action lawsuit in August 2013 to block the increase. As of press time, the case hadn't been heard.

RIGHT FOR YOU? Greg Davis, who is a 55-year-old landscape contractor, says he pays $650 per month, or $7,800 per year, for long-term-care insurance, so he can avoid tapping into his business income if he becomes incapacitated temporarily and can't manage his business. Fraser Financial Group associate Yechiel S. Goldberg, who is Davis' financial adviser, says long-term-care insurance is valuable. "There's a good chance you'll need long-term-care coverage if you live past age 65," he says.

Goldberg also says that, in general, the younger that a person is when he/she buys long-term-care insurance, the less expensive that the premium will be.

AHIP's numbers back him up. According to AHIP's analysis, the average annual long-term-care premium for a person who was younger than 55 in 2010 was $1,831, or about $153 per month, which is 23 percent less expensive than the $2,255 for consumers who were ages 55–64. (AHIP didn't break down the sub-55 age group any further.)

Still, clients who are in their 30s or 40s give Goldberg a quizzical look when he broaches the subject. Most people seriously consider a policy when they're past the age of 50, he says, but that's when a greater chance exists that age or medical issues will result in higher premiums or a denial of coverage. His advice: Buy a policy when you're younger to try to lock in lower premiums.

However, Bonnie Burns of California Health Advocates and Tony Steuer of United Policyholders, both of which are consumer advocates, suggest that long-term-care insurance isn't for everybody, and Goldberg agrees.

Goldberg says that, as a rule, the cost of a long-term-care insurance policy shouldn't represent more than 8 percent of your annual income. In other words, if you earn, say, $40,000 per year, you should spend no more than $3,200 on long-term-care insurance. Goldberg says you also have to figure in the cost of a 90-day elimination period, which now is typical in long-term-care insurance policies. That likely would mean about $21,000 in out-of-pocket costs before the long-term-care coverage kicks in. Consequently, Goldberg suggests that a buyer of long-term-care insurance should be someone who earns at least $60,000 per year to make it a conceivable option.

Ribyat takes it further. He suggests that such a buyer must have at least $300,000 in financial assets that he/she wants to safeguard for long-term-care insurance to make sense. Otherwise, he says, you have to rely on Medicaid or "hope to hell you don't get that sick."

SAME OLD STORY. Unfortunately for consumers, little regulation exists to prevent insurance companies from continuing to change their long-term-care insurance policies and cranking up the premium prices. Like with other forms of insurance, state insurance commissioners are responsible for regulating long-term-care insurance, and they have come under fire from policyholders and consumer advocates for allowing the recent price increases.

In response to the complaints, a National Association of Insurance Commissioners (NAIC) committee in August 2013 approved recommendations that are designed to rein in future increases. For example, a state that adopts the recommendations could permit an insurance company to increase premiums if the company promises to seek no further increases for at least 3 years, spread increases over a certain number of years to be determined by the state, or add contingent nonforfeiture to policies that were purchased before 2000.

Most policies that have been sold since the early 2000s include some form of *contingent nonforfeiture*, which provides options for consumers who face a large premium increase. Policyholders could retain their current premium level but reduce their benefits, as many now do anyway, or they could stop paying the premium and receive the value of the policy that's equal to the amount of the premiums that they paid.

American Council of Life Insurers and United Policyholders, which calls the changes "consumer-friendly," support the recommendations, but we aren't sure what difference that they'll make to consumers. The recommendations, after all, are just that. States aren't obligated to approve them, and, as of press time, no states proposed any timelines to implement any of the changes that are associated with the recommendations. California already includes some of NAIC's recommendations in its regulations, but Florida and North Dakota opposed the recommendations altogether.

Although the Florida Insurance Commissioner's office refused to explain its opposition, Adam Hamm, who is North Dakota's insurance commissioner, says he believes that the recommendations won't help consumers to predict with certainty what their future costs will be. Instead of working around the edges, he says insurers should be given a "once and done" opportunity to price older policies at the correct level and allow policyholders to cancel their coverage and get their premiums back, minus any benefits that they received.

"We need to do something drastic to try to resolve the old business," he says.

Howard Bedlin of NCOA suggests that the federal government should define a role that it can play. For example, he says he'd like to see a public-sector program that's similar to the Affordable Care Act that provides insurance options and standards to consumers. Otherwise, he says, “consumers aren’t really going to have many options.”

The federal government hasn’t enacted any steps to cover long-term care, however. HHS in 2012 shelved part of the Affordable Care Act that directed the federal government to develop long-term-care coverage that anyone could buy regardless of pre-existing conditions. HHS concluded that it couldn’t devise a policy that was both affordable and financially sustainable.

In a September 2013 report, a congressional commission identified two possible approaches to fixing long-term-care insurance. One option focused on market incentives and changes to tax and Medicaid policies that would make it easier to buy private coverage. The other option would provide coverage through Medicare or a new public program.

The commission endorsed neither approach, so consumers, regardless of whether they can afford long-term-care insurance, remain at risk.

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Shop Talk: Buying Long-Term-Care Insurance

If you decide to buy long-term-care insurance, experts whom Consumers Digest interviewed say you must guard against later rate increases.

Whatever coverage that you consider, consumer activists say it’s vital that any long-term-care insurance includes inflation protection that raises the daily benefit-payment amounts over time to help you to keep pace with the high cost of service. According to a 2012 survey by insurer MetLife, a private room at a nursing home cost an average of $90,520 per year. Kenneth Ribyat, who sells long-term-care insurance, says you should seek insurance that has inflation protection that increases the daily rate that you pay for long-term-care coverage by 3 percent to 5 percent.

In addition, you should be aware that premiums can rise at any point for a particular class of policyholders—no matter what a salesperson might assert. Ribyat says it’s difficult to anticipate by how much that your premium could rise, particularly because insurance companies price policies more carefully than they did a decade ago. Still, as a rule of thumb, he says to plan that rates could increase by up to 15 percent every 5 years.