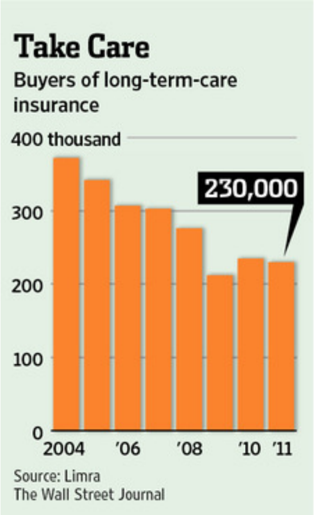
THE WALL STREET JOURNAL.
WSJ.com
September 21, 2012, 6:29 p.m. ET

By CHARLES PASSY

Long-term-care insurance is the financial equivalent of gum surgery: something that is often seemingly necessary, but just as often avoided at all costs.

Now, to add to its unpopularity, soaring prices are prompting consumers to rethink how much coverage they need and to experiment with other types of policies.



Long-term-care policies help pay for nursing-home, assisted-living and home care costs. In just the past year, premiums have risen by as much as 17%, according to the American Association for Long-Term Care Insurance, a trade organization for insurance agents.

In one recently publicized case, an Illinois couple, Bob and Cheryl Levy, saw their combined bill jump by 90%—to more than $7,000 annually. Given the spiraling costs, Mr. Levy decided to keep the policy, but cut back on some of the coverage to hold the premium to the same amount.

"I was not about to double my payment," he says of the increase he and wife faced.

The increases help explain why the number of policy buyers has fallen, say experts who track the industry. Limra, an industry-funded research group, puts the decline at 38% since 2004.

Another reason for the decline: Insurers are pulling back. Five firms, citing higher-than-expected claims costs and lower-yielding investments as interest rates stay at low levels, have left the business or dialed back since 2010, including MetLife, Guardian Life, John Hancock, Unum Group and Prudential Financial, according to Moody's Investors Service.

Yet the need for some kind of long-term-care planning remains greater than ever, experts say. Seventy percent of individuals over age 65 will require prolonged care at some point during their lives, according to the National Clearinghouse for Long Term Care Information website, which is maintained by the U.S. Department of Health and Human Services.

More Weekend Investor

- **Intelligent Investor:** Borrowing Against Yourself
- **Commodities Unbound!**
- **Upside:** Don't Buy the Earnings Hype
- **Getting Going:** On Crowdfunding and Other Threats
- **Conquering Retirement:** Trading In Your Pension
- **What the Fed Move Means**

Fortunately for those who hope to buy long-term coverage, a growing number of alternatives to traditional insurance are gaining in popularity. Sales of hybrid products—those that combine some type of life insurance with a long-term-care benefit—have been rising as traditional policies have faded. Limra says sales of such "life combination" products jumped 56% in 2011, the third consecutive year of double-digit gains.

Soaring Costs

With waves of baby boomers retiring, the number of long-term-care seekers is expected to rise to 15 million by 2020—50% more than in 2010, according to the federal Administration on Aging. Meanwhile, the cost of that care is also expected to soar—and it is already plenty pricey for many Americans, with a year in a nursing home easily topping $80,000, according to some reports.

"A long-term care event is one of the few things that can completely derail your retirement plan," says Jeremy Kisner, president of SureVest Capital Management, a financial-advisory firm in Phoenix.

Typical of the new breed of policies is New York Life's Asset Preserver, a universal-life offering that allows money paid into the policy—as a single upfront premium—to be tapped for long-term care. (If you don't use the benefit in your lifetime, it is payable to your beneficiaries.)

Chris Blunt, president of New York Life's insurance group, credits the lack of a use-it-or-lose-it element—a much-disliked facet of older policies—for the fact that sales have tripled since 2007. "People hate paying for something they think they will never use," he says.

Reduced Benefits

Financial advisers are also increasingly telling clients to forget another aspect of the old policies: that they will cover everything you might need in terms of care. Now more consumers are eyeing policies in which the daily care benefit is dramatically reduced from standard rates—often to as little as $100—which, say pros, should be enough to provide some hedge against inflation.

It isn't a perfect solution, says Ray Smith, an insurance broker who heads the Long Term Care Specialist agency in Aurora, Colo. "Almost any long-term-care insurance is better than no long-term-care insurance," he says.

Still, the concept of self-insurance is getting attention these days. The idea is that instead of paying those increasingly higher premiums, would-be policyholders can simply increase their retirement nest eggs and use some of their savings for long-term care, if necessary.

The problem, say critics of the approach, is that it requires more money than most Americans can afford to sock away. But those same skeptics acknowledge that many people with a sizable retirement kitty—say, $2 million or more—have already hit the mark where insurance is no longer absolutely necessary.

Write to Charles Passy at charles.passy@dowjones.com

A version of this article appeared September 22, 2012, on page B8 in the U.S. edition of The Wall Street Journal, with the headline: Long-Term-Care Insurance: Weighing the Alternatives.