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Long-Term-Care Premiums Soar

People with long-term-care insurance polices are getting hit with a new round of steep premium increases. But there are options that can help both existing policyholders and new buyers cut some of the costs.

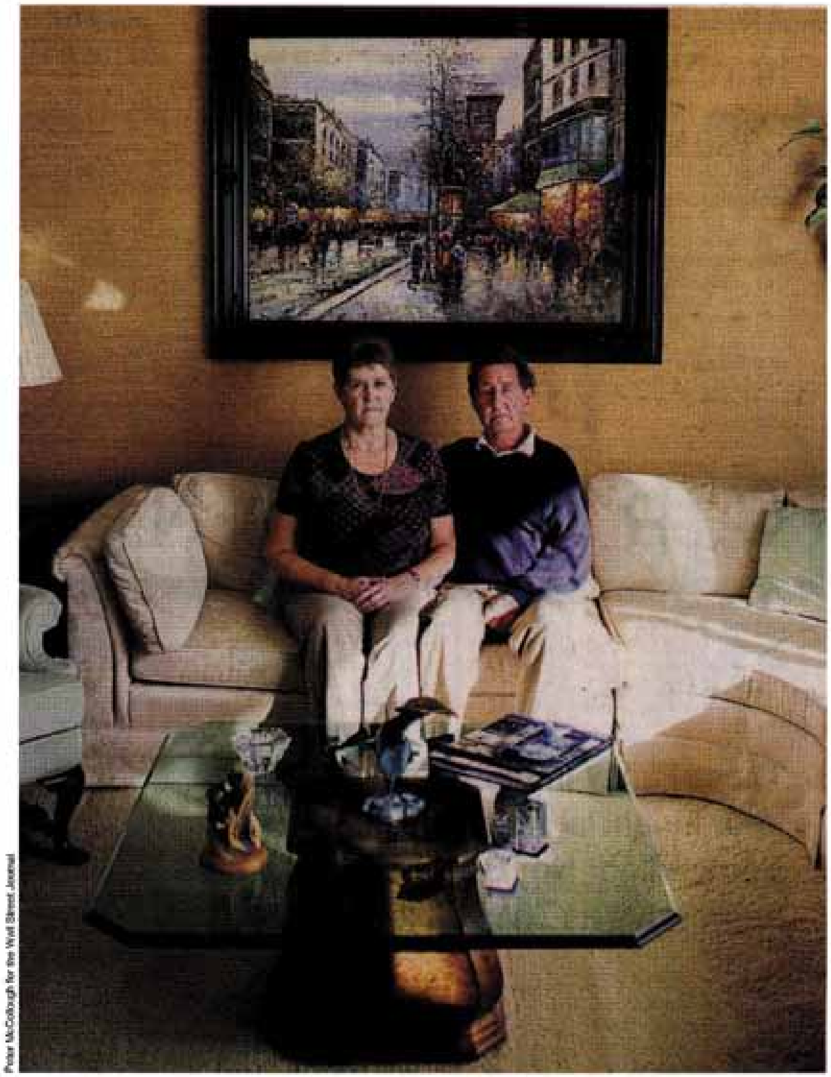
Last month, industry behemoth John Hancock Financial said it would ask state regulators for an average 40% increase for about 850,000 of its 1.1 million policyholders. The insurer, a unit of **Manulife Financial** Corp., also suspended sales of new long-term-care plans to employer-benefits programs.

In recent months, companies including **American International Group** Inc., **MetLife** Inc. and **Lincoln National** Corp. have applied for or received approval in one or more states for rate rises ranging from 10% to 40%.

Long-term-care insurance helps cover the cost of in-home care or nursing homes and assisted-living facilities. Insurers say the increases—which generally must be approved by state regulators—are due to policyholders living longer, generating higher claims and canceling fewer policies than they had projected. "Put simply, more people used the insurance than anticipated," Hancock said in a statement.

On top of that, today's ultralow interest rates mean that insurers earn less on the investments backing these policies. "It's fair to say in hindsight that actuaries missed the mark," says Thomas Considine, New Jersey's commissioner of banking and insurance. Regulators, he says, are juggling policyholders' ability to afford increases with the need to keep insurers strong enough to be around to pay benefits decades into the future.

Long-term-care insurance has historically been subject to price increases. But the latest round is hitting even policies issued after many states adopted "rate stabilization" laws in the past decade.



Sharon and Victor Vargo of Santa Clara, Calif., were hit with a 47% increase in their premiums in September.

"It appeared our law was working well because we did not see any rate increases until recently," says Steve Poizner, California's insurance commissioner. The state requires insurers to certify that in the absence of unusual events, rates will remain unchanged for existing customers. Mr. Poizner's department has scheduled an Oct. 26 hearing into the "significantly higher" number of rate-increase requests that his office now is assessing.

About 8 million Americans own a long-term-care policy, according to data compiled by the American Association for Long-Term Care Insurance, a trade group for insurance agents. The average buyer is 57 years old and pays $2,150 in annual premiums.

We Are Frugal

The increases can be painful for older adults on tight budgets. In 2002, Victor and Sharon Vargo purchased a long-term-care insurance policy from Lincoln Benefit Life, a subsidiary of **Allstate** Corp., with an annual cost of $3,305. The policy promised bills would be covered should either individual, or both, enter a nursing home or assisted-living facility.

"We didn't want one of us to have to live in poverty to pay the other's bills," Mr. Vargo says.

The Vargos, who say they have never submitted any claims, say they had thought their premiums would never change. In a letter dated July 17, 2010, Lincoln Benefit informed the Santa Clara, Calif., couple that as of Sept. 24, their annual premium would jump to $4,868—a 47% increase.

"We are frugal and have a formal budget plan for retirement," says the 68-year-old Mr. Vargo, a former electronics-industry manager. "If we have to pay higher premiums, our resources aren't likely to last for our expected lifetimes."

Lincoln Benefit declined to discuss individual policy details for privacy reasons, and pointed out that it hasn't issued new long-term-care policies in more than five years.

Faced with steep rate increases, many people will want to drop their coverage. But that step is "usually one of the worst things policyholders can do," says Gary Cotter, a financial planner at Cotter Financial LLC in Sun City Center, Fla. After all, those who walk away from a policy "have paid all this money and get nothing back."

In deciding the best course of action, you should first consider factors including your financial resources, age, health and need for other forms of insurance coverage. If you want to retain your current level of coverage but are too strapped to pay a higher premium, some advisers recommend asking one or more heirs to help out. Each heir can give any one person up to $13,000 this year free of gift tax.

Policyholders can ask their carrier to modify their coverage to bring premiums down. For example, carriers may allow policyholders to reduce the daily or monthly costs covered by policies—say, to $150 a day from $200. Or, they can expand the "elimination period," the number of days the policyholder must pick up the tab before benefits kick in—say, to 90 days from 30 days.

Lowering Your Premiums

It also may be possible to lower your premiums by reducing the number of years of coverage you are entitled to under a policy—from, say, lifetime protection to two, three or four years of benefits.

Many states allow policyholders who have experienced rate rises of a specific magnitude to stop paying premiums altogether, while retaining coverage equal to the premiums they have paid already, says Bonnie Burns of the nonprofit California Health Advocates. The increases that trigger this protection vary by age, she adds.

People in this camp who need additional coverage could then buy it elsewhere. Advisers caution, though, that finding a better deal may not be easy, especially if you have aged significantly or your health has deteriorated since you purchased the original policy.

Those who want to buy a policy but are concerned about future premium increases can ask the carrier to let them pay off the policy by making higher payments over a shorter period of time, such as five or 10 years, says William Upson, a financial planner at Strategic Asset Management Group in Walnut Creek, Calif. The shorter the payoff period, the lower the risk of getting hit with a rate increase.

There also is an increasingly popular breed of "hybrid" policy that some financial advisers are recommending. These policies pair long-term-care benefits with an annuity or life insurance. Thanks to tax-law changes that took effect in 2010, policyholders are permitted to take tax-free withdrawals from these policies to cover long-term care.

Because customers can pay for this coverage with one upfront premium, they can effectively lock in a price for the benefits, advisers say.

Companies that sell variations on the same theme include Lincoln National and State Life Insurance, a unit of **OneAmerica Financial Partners** Inc.

Since these policies combine two forms of coverage, they tend to be more expensive than a conventional longterm-care contract. But some consumers, such as those with chronic diseases, may have an easier time qualifying for a life-insurance policy than they would a long-term-care policy, says Mr. Cotter. And annuities generally require no underwriting at all.