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Prudential, Following Rivals, Pares Long-Term-Care Offerings

By LESLIE SCISM

Prudential Financial Inc. became the latest big insurer to cut back on sales of long-term-care insurance, a type of policy that helps consumers pay for nursing-home bills and other costly expenses but is one of the toughest business lines for turning a profit amid ultralow interest rates.

Prudential said it would quit taking applications for policies sold to individuals as of March 30, but would continue to sell the coverage through employer-sponsored benefit programs.

The Newark, N.J., insurer's decision comes on the heels of an announcement last month by Unum Group , another major seller of insurance to employers, that it would discontinue selling long-term-care coverage to those corporate customers. In late 2010, giant MetLife Inc. said it was halting sales of the coverage.

Malcolm Cheung, a Prudential executive, said the decision to quit sales of the policies to individuals "reflects the challenging economics of the individual market and our desire to focus resources and capital on the group market where we see the greatest opportunity."

Prudential said it would honor existing policies and contract terms so long as premiums are paid on time. Those premiums can change subject to regulatory approval.

Over the past 25 years as the coverage gained popularity, it has proven tricky for insurers. Many have had to repeatedly seek approval from state insurance departments for price increases to offset costs they didn't anticipate. Policyholders are living longer and generating more in claims than initially projected, industry participants said.

Now, ultralow interest rates are hurting insurers' investment returns, making it even harder to earn a profit on the policies.

"It's extremely regrettable because Prudential was a significant player [selling to individuals] in the long-term-care marketplace, but it's one more casualty of the historic low interest rate environment that nobody sees abating at any time," said Jesse Slome, executive director of the American Association for Long-Term Care Insurance, a trade organization supported by the agents and brokers who sell the product.

Low interest rates play a big role because people buy the policies often when they are in their 50s or 60s, but might not file for claims for decades. Insurers price the product with the expectation they will earn substantial investment income, primarily in high-quality bonds, in the intervening years.

Mr. Slome said one of the trickiest elements for insurers to handle amid low interest rates is inflation protection for consumers, which many want to make sure the policies will cover the rising cost of nursing-home care.

The shrunken market still includes about 10 major insurers selling to individuals, and a number of large ones, besides Prudential, continue to sell coverage to employer programs, he said.

In retreating from the market, Unum cited factors including "the significant decline in long-term interest rates," and said it also considered a fresh industry study showing that lower termination rates than the company had previously assumed were beginning to emerge in the industry.

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