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Long-term care: Cutting back coverage

Double-digit rate hikes force some policyholders to reduce benefits

By Darla Mercado
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When a 74-year-old client visited Ellen R. Siegel six years ago with news of an upcoming 12% rate increase on the premium of her long-term-care insurance, the adviser knew she had to navigate the potential benefit cuts with the precision of a surgeon.

The policy, originally issued by The Travelers Cos. in 1999, granted the client — a psychotherapist who was still working — five years of benefits, including a $150-a-day coverage at home or at a nursing facility after a 60-day waiting period. The client also had the annual option to add a rider that would allow the benefit to keep up with inflation.

Faced with the choice of paying a $200 rate hike, which would have brought her annual premium to $1,843.12, or dialing back benefits, the client decided that it would be best to trim the coverage by lengthening the waiting period to 90 days, reducing the daily benefit to $135 and shortening the benefit period to three years.

“She was still working, and we determined she could manage self-insuring a longer waiting period,” said Ms. Siegel, owner of an eponymous financial planning firm that manages $40 million in assets.

These days, the worst-case scenario is unfolding, as that client, now 80 and retired, recently was diagnosed with cancer. She will be undergoing surgery and could be facing up to a month in the hospital.

“I hate telling a client that, God willing, you won't need help for 90 days post-surgery, but years ago, we cut the waiting period [benefit] to drag it out,” Ms. Siegel said. “There isn't going to be any cash to pay for a private aide, because the waiting period has changed.”

Both adviser and client have run into a conundrum that's facing long-time LTC insurance policyholders: the tough choice between absorbing skyrocketing rate increases or cutting back benefits. Obtaining a new policy sometimes is not an option, as the client is now older and coverage is harder to come by.

STEEP HIKES

Most major LTC insurers, including Genworth Financial Inc. and John Hancock Life Insurance Co., have called for rate increases in recent years. The latter requested premium hikes averaging 40%, and those increases began rolling out this year, pending state approval. New policies are also becoming more expensive.

Insurers have cited a variety of reasons behind their calls to raise rates. In LTC insurance's early days in the 1980s and 1990s, carriers were focused on sales volume and improperly underwrote the policies. The companies not only expected more insured people to let their policies lapse, they didn't expect them to live as long.

The low-interest-rate environment also has hamstrung carriers, as they count on investment returns to help them cover the cost of benefits paid.

“The products today are written more conservatively than they were 10 years ago,” said Carl Austin, assistant vice president at A.M. Best Co. Inc. “The expectation of investment returns are also very different, and most companies have taken some action to increase rates.”

Even if the rate increase comes when the client is in his or her 50s, advisers still have to decide whether to keep the policy or shop for a new one.

“If the company asks for the rate increase when you're 55, there's a lot of risk that they can go back and ask for another increase in a few years,” said Todd Parker, president of long term care at Lenox Advisors Inc.

Two of Mr. Parker's clients, a married couple in their 50s, were recently notified of an 18% rate increase on their MetLife Inc. LTC policies. To maintain their current premiums, they had the choice of dropping their benefit period from 10 years to seven or reducing the inflation protection from a compound 5% interest to 3%.

The investors bought the coverage about four years ago, and the hike was going to bump their combined annual premiums to $4,500.

Mr. Parker decided to go with the devil he and the clients knew: paying more for coverage. Shorter benefit periods might hurt them if they develop a chronic illness such as Alzheimer's disease. Meanwhile, inflation in-evitably will get worse, and the policy needs to be able to keep up with the rising cost of care.

Financial advisers opt to brace the client for paying more if they are unable to secure new coverage. Some advisers ask clients at the time the policy is initially taken out if they'll be able to withstand a 15% to 20% rate increase down the road. An increase in the higher double digits isn't necessarily anticipated, however, and could be hard to handle without a trim in benefits.

“People react differently to a 40% increase versus a couple of years of 15% rate increases,” said Tom Hebrank, a LTC specialist at Advanced Planning Solutions Inc., which acts as a consultant to advisers. “I've seen situations where people are just strapped and [they end up] cutting the number of years of coverage.”

LONGER WAITING PERIODS

Given a choice, he suggested lengthening the waiting period for care to kick in or reducing the daily benefit.

Financial planner Bill Goldsmith of LifeTime Financial Strategies LLC has walked clients through increases as high as 30% and recommended that they keep the coverage. The policies were inexpensive to begin with, and some states phase in rate hikes over time, so the increase isn't as traumatic.

“The policies were more cost effective than what the client could get in the marketplace,” Mr. Goldsmith said.

Some insurers have created options to make rate hikes or benefit reductions more palatable. John Hancock, for instance, created an option to keep the premium the same but to reduce the inflation protection to 3.2%, from 5%.

“It's not a great thing to do to your policy, but if you're tapped out, it's a way to avoid drastically changing it,” Mr. Parker said.

In Ms. Siegel's case, the experience of a client's not having the coverage immediately at hand has made her change her approach to recommending LTCI.

“A client in the midst of a challenge suddenly wants the insurance to be there right away,” Ms. Siegel said. “I wish I knew to put more into the conversation besides money and risk assessment. If I had a do-over, I would have this story to tell to engage an emotional reaction

Fighting for market share in the LTC business

Mutual insurers are winning LTC business over some big publicly held carriers

By Darla Mercado

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A handful of publicly held life insurers dominate the market for traditional long-term-care insurance, but mutual life insurers are beginning to make inroads with agents and financial advisers.

Genworth Financial Inc. and John Hancock Life Insurance Co. dominate the list of LTC policies sold last year, with 1.1 million and 725,000, respectively.

However, sales are climbing at insurers such as Northwestern Mutual Long Term Care Insurance Co., which had 120,000 policies as of the end of last year, up from 103,187 at the end of 2009. Massachusetts Mutual Life Insurance Co. has also picked up sales, with a total of 65,113 policies, up from 60,780 in 2009.

Although mutual insurers represent just a fraction of the LTC market, advisers and agents are giving them a closer look.

For one thing, there are fewer companies offering LTC insurance, so the universe is smaller. But more importantly, mutual insurers, with their tough underwriting standards, haven't had to raise rates as often as their bigger counterparts.

“I stick with companies like MassMutual because they don't raise costs,” said Sara Bohn, an adviser at JSW Financial, which has $100 million in assets under management. “[And] I can feel comfortable that that company is going to be around for 100 years.”

The LTC insurance industry has been subject to many changes as it has matured. Companies that have bailed on writing new policies include Conseco Senior Health Insurance Co., MetLife Inc. and Penn Treaty American Corp.

Public companies jumped into the industry with optimistic underwriting and lapse rate expectations, and priced products improperly, observers said.

Those issues, along with low interest rates, have squeezed insurers and forced them to drive up premiums on existing policies — and, where applicable, new business — so that the costs adequately reflect the risk that they are taking.

Mutual companies such as MassMutual, New York Life Insurance Co. and Northwestern Mutual, on the other hand, got into the business later and learned from the mistakes made by their predecessors. Their policies generally were priced about 30% higher than those sold by publicly held insurers, avoiding the periodic rate increases imposed by the bigger public companies, advisers said.

'PRICED HIGHER'

“You could argue that a company like Northwestern Mutual would be more stable, but they priced higher to begin with, years ago,” said Harley Gordon, president and founder of the Corporation for Long-Term Care Certification Inc. “Companies that have been in the business for 30 years, and have seen claims come in higher than expected, raise the premiums because they have to.”

These days, prices for new policies from mutuals and stock companies are about the same, and advisers are turning toward mutuals when possible.

“The stock insurers have recognized that they need to price more, so the gap in price has narrowed,” said Claude Thau, president of Thau Inc., an insurance wholesaler.

Also, a track record with few or no rate hikes on existing policies could mean fewer surprises for the client in the future.

Greg Olsen, a partner at Lenox Advisors Inc., has been recommending MassMutual policies to clients, particularly after some clients were hit with a 13% rate increase on their MetLife policies.

“I've given these mutuals so much of my business,” he said. “Looking back over 20 years, when I go to companies that put profits over clients, I get burned.”

When asked to respond, Jodi Anatole, MetLife's vice president for health risk products, said, “While we are sensitive to any rate increase that impacts our policyholders, assumptions used to initially price many long-term-care insurance products have changed. Rate increase filings have been necessary to ensure that we deliver on our promises to all of our policyholders.”

LTC insurance specialists noted that although they have seen more agents and advisers asking about the major mutuals, some of that might stem from the fact that there are fewer players in the business now.

“With MetLife leaving and John Hancock making a ton of changes, that $100 million of new business had to go somewhere,” said Julie Gelbwaks Gewirtz, executive vice president of Gelbwaks Executive Marketing Corp., an insurance brokerage.

It makes sense that money would flow to the other insurers, she said.

But there is a flight-to-quality element under way as well, some say.

“Certainly, as some of these stock companies have been beat up over the last couple of years, there's a flight to security and safety,” said Steve Cain, executive vice president and national sales leader at LTCI Partners, a brokerage specializing in LTC insurance.

Aside from the shift in preference, however, observers noted that because of a more narrow distribution system, mutual insurers probably will never overtake their stock counterparts in market share. Although MassMutual and Mutual of Omaha Insurance Co. can be sold through insurance brokerages, New York Life and Northwestern Mutual sell their policies exclusively through their career agents.

“You have some brokers who'll sell mutual companies, and that's true with Mutual of Omaha and MassMutual, but other [mutual companies] won't deal with brokers,” Mr. Thau said.

To some extent, having that limited audience of agents can help regulate growth and discourage LTC sales from taking off too quickly.

“Other companies have had erratic growth, but we still sell through an exclusive distribution system,” said Steve Sperka, vice president of LTC insurance at Northwestern Mutual. “We don't have to be sensitive to having the cheapest prices, and this allows us to train the sales force to look at how the product is sold.”

Most other LTC insurance brokers go either for the lowest cost or the fanciest feature, as opposed to seeing the product as part of a holistic planning solution, Mr. Sperka said.

As a result, advisers' increased interest in mutual insurers will notch a few new policy sales for the insurers but probably won't siphon off much business from the biggest LTC insurance providers.

“We've seen a lot of push to promote mutuals, and the agents feel comfortable doing that because they felt the clients would be safer. But it hasn't shifted the industry. Agencies like mine are still status quo,” Ms. Gewirtz said.