Long Term Care Insurance Update

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By now everyone has heard that the cost of health care is forecasted to rise dramatically over the next decades. We have been advising our clients for many years that a large part of their retirement budget will go towards health insurance and ancillary health costs. Long term care is a separate but related expense that should also be considered when planning for retirement. As Americans live longer, it is more likely that they will experience a need of this type at some point in their lives.

Long term care is required when an individual can no longer perform the activities of daily living without assistance. Eating, bathing, and dressing are examples of activities of daily living. The need for such care may be a result of the normal aging process but is sometimes due to an illness or injury. According to the Prudential 2010 Long-Term Care Cost Study, 70% of seniors will require long term care during their lifetimes, with more than 30% needing nursing home care. Since Medicare and traditional health insurance only covers a minimal amount of long term care expenses, the cost of care can be financially devastating. For this reason, we often recommend that our clients investigate long term care insurance.

Why Insure?

Currently less than 15% of Americans own long term care insurance (LTCi). This relatively small percentage is attributable to the cost and selectivity of the product, as well as the "image problem" that the industry has experienced over the past three decades. Many people are reluctant to purchase LTCi because they are unfamiliar with the product, and they may not know anyone who has benefited from coverage. However, more and more people are becoming educated about long term care and the potential catastrophic impact that the cost of this care could have on their retirement nest egg.

Depending on a client's unique circumstances, we may recommend LTCi coverage in order to:

- *preserve retirement assets* for the use of the insured and surviving spouse - Many people don't consider the financial impact that their end-of-life care can have on the loved ones that they leave behind.

- *provide options* - Most of today's policies are comprehensive and cover home care as well as skilled nursing, assisted living and adult daycare facilities. Because today's policy benefits are so flexible, they are more likely to be used than traditional "nursing home" insurance.

- *ease the burden of care* - LTCi offers access to professional care and ensures that this burden will not fall solely on a family member. Providing long term care to a loved one often takes a significant emotional, physical and financial toll on friends and family.

Although the major carriers will write policies for individuals up to age 80, we generally advise clients to consider buying coverage in their 50s to early 60s, and *before* they have major health problems. Underwriting has become increasingly strict; even a common condition like diabetes may make an individual uninsurable. Cognitive impairment also negatively affects insurability. Even for a relatively healthy person, the ability to qualify for coverage diminishes with age.

Some companies offer group LTCi policies as a benefit to their employees. These policies are inexpensive, easy to purchase with little to no underwriting involved, and are portable when you leave the employer. However, many carriers have stopped writing new group policies due to the risks involved with insuring a pool of unscreened individuals.

Policy Costs, Features and Riders

The initial LTCi premium is based primarily on your age and health status as well as the elimination period, policy benefits and maximums selected. The younger you are when you buy the policy, the lower your initial premium. Most new policies have level premiums, which means that you will pay the same amount each year *unless* an increase is approved by the state insurance commissioner (more about this later). Interestingly, unisex rates are used by most carriers even though women incur greater LTC expenses than men.

The elimination period is the number of days you must pay for care out-of-pocket before your policy benefits begin. Premiums are lower for policies with longer elimination periods. You select your daily benefit amount and inflation rider depending on the level of coverage you need. Carriers are required to offer benefit inflation options on new policies; this can be a flat percentage increase (simple or compounded) or it may be tied to the Consumer Price Index. Benefit maximums range from two years to unlimited, although many carriers have recently stopped offering unlimited benefits. All LTCi policies are guaranteed renewable, meaning that the insurer cannot cancel the policy unless the premium is not paid.

There are many additional riders available on LTCi policies, including shared care, return of premium, and survivorship options. There are also hybrid life/LTCi and annuity/LTCi products on the market which offer unique benefit combinations but are usually not as effective as purchasing two separate products.

Premium Increases

Some of our clients have recently been notified that the premiums on their older LTCi policies are going to increase. This is not surprising, given that the less stringent underwriting and actuarial assumptions used in the past decades have put the squeeze on insurance companies. Older policy premiums were determined using shorter longevity rates, higher policy lapse assumptions and greater investment returns than the companies are currently experiencing. As a result the overall cost to insure is higher than the premiums collected, so they are passing on the increased costs to their customers. Keep in mind that several of the major carriers *never* raised their premiums until 2009, so these increases may have been several years in the making.

Before they can raise premiums, insurers must receive approval by each state's insurance commissioner. The increase will only be approved if it is shown to be actuarially necessary. In addition, the company is required to use at least 80% of the revenue for claims servicing, not internal expenses. While premium increases used to be quickly and routinely approved by the states, it may now take months or even years for a company to receive approval. Insurers are also required to provide several alternatives, in case you do not wish to pay the higher premiums. For example, they may allow you to keep the same premium but reduce the inflation factor, daily maximum or lifetime maximum.

Given that this is a relatively young industry and the underwriting process is still evolving, we recommend that when budgeting for a new policy you factor in the potential for premium increases at some point down the road.

Long term care can be a critical component of the financial stability of your family. If you do not have an LTCi policy and would like to discuss your options, please contact your Financial Advisor. We can help you decide if it makes sense for you to insure and if so, what level of coverage is appropriate for your situation. We can also refer you to an insurance professional who can determine which of the insurance companies are best suited to your needs. If you currently own a policy and have been notified of a premium increase, we would be happy to review your notification letter to help you decide how to proceed.