Government Executive

Long-Term Care Insurance: What Should You Do About Rate Hikes?

By Tammy Flanagan

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If you've been reading the news over the past two weeks, you've probably heard aboutthe recent large rate hike for participants in the Federal Long Term Care Insurance Program. I've been getting quite a bit of mail asking my opinion about what participants should do. A lot of people are angry, and understandably wonder why their policies weren't priced more accurately when the insurance was first offered. I'm sympathetic (because I'm a participant in the program, too), but I also think it's important to at least consider the benefit of considering some coverage to reduce the risk caused by the expense of needing long term care.

According to Long Term Care Partners, which administers the FLTCIP, the bottom line on the rate increase is that current premiums are insufficient to meet the program's projected claims costs. (Disclosure: I produce educational seminars for Long Term Care Partners under contract.) All insurance programs depend on having a large, diverse pool of insured people, sufficient premium payments to cover anticipated losses, and reliable statistics on the probability of loss.

FLTCIP has had difficulty finding reliable statistics on long term care usage, especially when it comes to family caregivers. Plans in the FLTCIP provide comprehensive coverage that covers care in the home, provided by an informal caregiver. But it has been hard to gather data on how long people tend to receive in-home care.

According to the National Association of Insurance Commissioners, in the past decade the long term care market has grown from covering less than 3 million people to more than 7 million. FLTCIP has about 274,000 group policies in force. The Health and Human Services Department says about 12 million senior citizens will require long-term care by 2020.

Problems with projecting usage and costs are not unique to FLTCIP. In a study released in May, the National Association of Insurance Commissioners and the Center for Insurance Policy Research found that premiums in the long term care industry have increased 123 percent since 2000, while claims are going up at an even higher rate — 366 percent. In the 1990s, more than 100 companies were in the long term care insurance business. By 2014, less than 15 companies were selling stand-alone products. John Hancock, who underwrites FLTCIP, is among the top three insurance companies selling long-term care policies today, along with Bankers Life and Casualty and Genworth.

The characteristics of long-term care policies also have changed dramatically. In 1990, 63 percent of policies covered only nursing home stays; today 99 percent of policies combine in-home benefits with facility care. In 1990, only 40 percent of policies sold offered inflation protection. Today, 75 percent of policies offer this feature. The duration of the policy benefit period has decreased from an average of 5.6 years of coverage to 3.8 years.

What To Do

The cost of long-term care continues to be very expensive and family caregivers continue to provide care at the expense of the caregivers' time and their own health. The need to find a way to cover the cost of long-term care has not gone away even as the cost of insurance is going up.

By now, many of you already have received the dreaded "personalized choices" notice from FLTCIP, providing you with a number of alternatives to the new rates that are going into effect on Nov. 1. So have I.

Now I have a decision to make by Sept. 30 to avoid paying premiums that are slated to increase in my case by 123 percent. I purchased my current coverage when I was 47, which is advantageous, because my future premiums are based on my original issue age. If I were to cancel my policy and later decide to purchase a new one, the premiums would be considerably higher for the same amount of coverage.

I currently am insured for a five-year benefit period with a daily benefit amount of $171.04 and a 5 percent automatic compound inflation option. The current maximum lifetime value of my policy is $312,148. My premium is currently $91.09 per month. If I do nothing to change my coverage, the premium will go up to $205.86 a month.

Right now, I'm asking myself where else I could've invested $91.09 a month and had more than $300,000 available to cover the cost of long term care if I should need it tomorrow. But the new premiums are going up to more than $200 per month. Because my husband and I are both facing rate increases and he is fully retired and I am phasing into my own retirement, we're hesitant to do nothing and accept the increased rates.

My plan change options include:

- Lower my inflation protection to 3.9 percent, which will lower my new premium from $205.86 to $148.48 a month.
- Lower my inflation protection to 2.2 percent and keep my premium at the current $91.09 per month.

- Choose a paid-up limited benefit — a return of the premiums already paid or 30 times the current daily benefit amount, whichever is higher. In my case this would be a maximum lifetime benefit of $11,850.

It's also possible to decrease my policy by reducing the daily benefit amount or reducing the benefit period from five years to a lesser period. If I did decrease coverage, it would have to be to another plan option currently available under FLTCIP.

I decided against the paid-up limited benefit amount option because I can afford to continue to pay at least my current premium and the value of my current policy far exceeds the cost of my current premium.

So I considered the two inflation adjustment options, calculating the value of my maximum lifetime benefit later in life. Using the rule of 72 (divide the interest rate into 72 to find out how long it will take the policy to double), I determined that under the 3.9 percent inflation option, the current $312,148 value of maximum lifetime benefits would be worth $624,296 in 18.4 years (when I will be around 76 years old). When I am 94 years old, the maximum benefit would be worth $1,248,592. Under the 2.2 percent inflation offer, my benefit would double every 32.72 years which means that at age 90, I would have a benefit payable of $624,296.

I decided that I can afford to pay a portion of the increase, so I will continue the current policy and reduce the inflation protection from 5 percent to 3.9 percent. I understand that in the future, I may have to endure additional premium increases and/or take additional reductions in benefits. Still, this coverage would provide some relief to the cost of long term care services.

Am I happy about the increase? No. Am I happy that I have the coverage? Yes. Am I happy that I purchased the coverage at age 47? Yes.

Now, if you're affected by the FLTCIP increases, you must make your own choice. I hope the explanation of my decision-making process helps you in that process.

Photo: Myfuture.com, via Flickr

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