With Premiums Increasing and a Major Carrier Exiting the Market, Should You Still Consider LTC Insurance?

On Nov. 11, insurance giant MetLife said it would sell no new long-term care (LTC) insurance policies after Dec. 30 though it would continue to service its 600,000 insured customers. The reason? “Financial challenges” in the long-term care insurance industry.
What does that mean?

In short, that long-term care costs have proven unpredictable in the insurance industry, a world that definitely likes predictability. According to Genworth Financial, a marketer of LTC insurance, the cost of assisted living has climbed at an annual rate of 6.7 percent over the past five years and the price for a private room in a nursing home jumped 4.5 percent annually over that timeframe. Insurers have been increasing LTC premiums to combat this cost rise, making recession-battered 2009 one of the worst years for policy sales.

It is unclear whether other major carriers might join MetLife, but their decision adds some uncertainty to the picture for long-term care planning, one of the most important ways to protect retirement funds.

For some needed perspective, it makes sense to visit a qualified financial planning expert who can look at your complete financial picture and make a recommendation. Here are some of the questions you need to answer before investing in long-term care insurance or other options:

What resources do you have? We are not just talking about money here. While caregiving puts a strain on family, it is important to consider whether family and friends are truly willing and able to help with your care, which can provide a considerable financial and emotional benefit. Also, if you live in a community with reliable volunteer resources to help, that is something to note, though today’s services may not be there tomorrow.

How old are you and your spouse and what is your health history? People in good health purchasing long-term care insurance at the age of 55 usually get the most affordable deal in LTC insurance. But an individual’s family health history and current health status are the real determinants of what your LTC insurance policy will cost – or if you will qualify for coverage at all. Also, it is important to note that 40 percent of long-term care is provided to individuals between the ages of 19 and 65, so the need for care can strike at any time.

Are you a single female? Again, personal and family resources come into play here, but since women typically live longer than men – and they still earn less on average than men – women should take a heightened interest in providing for their long-term care safety net. Long-term care insurance might be a good solution given their other investments and their health history.

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What types of services are covered? Over the course of time, long-term care policies have evolved to place more emphasis on home-based care or assisted living, since most people would choose to recover or live out their last days in a familiar environment. A basic LTC insurance policy pays for assistance with activities of daily living including eating, dressing, bathing, toileting, incontinence, and transferring (bed to chair, etc.). Each policy lists the types of services that are covered under nursing home care and under home health care. Homemaker services are generally covered and other services as listed in the policy.

What triggers coverage? A qualified LTC policy will not go into effect until the covered individual can't perform two tasks of daily living for a period, typically 90 days, or when that person needs substantial supervision related to cognitive impairment. This is where you have to read the fine print since some policies are more restrictive than others. More affordable policies generally take longer to kick in. See if coverage for other physical ailments is available as part of the policy and what per-diem or monthly allowances are offered.

How healthy is the insurance company? While it is impossible to tell the future – or when a major carrier wants out of a particular line of business – it is generally better to go with a larger, higher-rated company.

How affordable will the policy be if your premium increases? If you can barely afford LTC coverage now, it is going to be much tougher to afford premiums if they go up over time. Talk with a planner about other options if that is the case.

What about an annuity? There are hybrid annuities that also carry long-term care coverage. These products allow policyholders to use the proceeds for LTC coverage, for income or for both. The proceeds that go to pay for long-term care costs for the policyholder would not be subject to federal tax. These long-term care annuities can generate tax-deferred gains, which works particularly well for those in high tax brackets who believe they will be in a lower bracket by the time they would need to draw on that coverage.

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