StarTribune.com

No insurance against price increases

Article by: , Star Tribune

Updated: November 19, 2011 - 3:53 PM

When Dean Di Tosto bought long-term care insurance in 1998, he believed he was locking in a low rate.

Now the 83-year-old Minnetonka resident feels duped. His insurance company, John Hancock, hiked the premiums twice in the past three years. The payments could go from $140 a month to $202 a month, a 44 percent increase.

"I understand the need for these increases," he said. "I'm not a dummy. But it should affect future new policyholders, not those of us who have already put in thousands of dollars. Many people can't go out and make more money to make up the difference."

Trapped between fast-rising costs for care and weak returns on their investments, insurers have been raising long-term care premiums by double-digit percentages in Minnesota and nationwide. John Hancock, one of many companies to seek increases from the state, secured average rate increases of 13 percent in 2008 and 40 percent in 2010.

Some worry that higher premiums will make people less likely to get long-term care insurance -- a potentially serious problem at a time when aging baby boomers' needs for long-term care are about to explode. Ultimately, that could force people to lean on government programs to pay for nursing-home care and other costs.

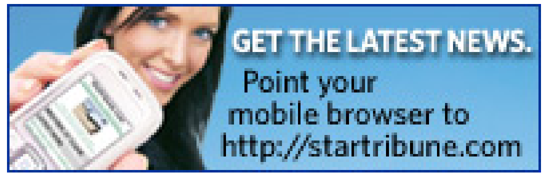
"We've identified it as a priority for our health reform cabinet," said Commerce Commissioner Mike Rothman, whose office regulates the insurance industry. "We're looking at it, monitoring it, and making sure that when those rate increases come in, that they're not exorbitant."

More than 180,000 Minnesotans have long-term care insurance policies, designed to help seniors pay living costs later in life without being forced to deplete savings or sell their homes. The average cost of care is about $48,000 a year, but nursing homes can cost $80,000.

Insurance pays a fixed amount of daily benefits for a certain period of time. Premiums are based on such factors as age, gender and health.

State and federal lawmakers have spent considerable energy trying to encourage the middle class to plan ahead with long-term care insurance, without much luck.

The Obama administration last month scrapped the CLASS Act, a long-term care insurance program and major piece of federal health care reform. Minnesota launched a program in 2008 that allows median-income households that buy long-term care policies to shelter some assets if they apply for Medicaid. Still, only about 11 percent of people in the state



have the insurance.

Even though the Medicaid program was designed as a safety net for people in poverty, middle-class seniors routinely deplete their assets and turn to the state.

In Minnesota, Medicaid pays about 40 percent of elderly long-term care. Costs could rise fivefold by 2035 to an "unsustainable burden" of $5 billion, according to a report last year from the Citizens League.

A difficult business

Long-term care coverage is a relatively new product. Though policies have been available since the 1970s, sales didn't start taking off until 1996 when the federal government offered modest income tax advantages.

A combination of factors has driven the recent price increases.

Insurers set their rates on assumptions that some people would let their policies lapse. But people held on to policies longer than expected. And their claims are bigger because they're living longer.

Low interest rates have had perhaps the biggest impact, because insurers planned to cover claims based on reserves they invested. When those investments fell short of expectations, insurers turned to policyholders to make up the difference.

"It's the perfect storm," said Amy Pahl, who advises insurance companies on long-term financial projections and regulatory matters for the actuarial firm Milliman.

"You're looking at collecting premiums and investing them for 30, 40 or 50 years before a payout," she said. "Ten or 15 years ago, interest rates appeared to be sustainable at 6 or 7 percent. Every American knows that's unachievable now."

The difficulty of making the risks and financing work over such a long time horizon has led a number of companies to get out of the business, including Blue Cross and Blue Shield of Minnesota, Allianz Life and Ameriprise, Paul said.

A decade ago, 130 companies sold long-term care insurance. Today there are about 20, she said.

'Understandably surprised'

Deb Newman -- whose Richfield-based company, Newman Long Term Care, is one of the biggest long-term care sellers in the country -- has sympathy for policyholders facing increases. She's one of them.

A policy she bought 18 years ago went from $725 annual premiums to about $1,100. Even so, it's a better deal than waiting, she said. Similar coverage would cost someone who bought a policy now about $5,000 annually.

"People are understandably surprised when the insurance companies say, 'Oops,' we have to go back and increase everyone's premiums by 40 percent," she said. "But it's still a tremendous value relative to what they could purchase oday."

The squeeze is especially tough for people who bought policies in the 1980s and 1990s. Some of those policies didn't cover assisted living or adult day care, because they didn't exist at the time.

Minnesota has tightened its long-term care law to add consumer protections and force insurers to build a stronger case to regulators for premium hikes. But those rules only affect policies written in 2002 and beyond.

In an e-mailed response to questions, a John Hancock spokeswoman said, "The company has always tried to provide alternatives to policyholders facing rate increases so they can keep premiums close to their current levels."

The alternatives include reducing the benefit period, adjusting the benefit amount or allowing policyholders to reduce inflation coverage, the company said.

Di Tosto, a former marketing executive who runs a small business with his son, said he can afford higher premiums for himself and his wife, Inga. He remains angry that his choices are to pay up, reduce his benefits, or cancel and lose the $50,000-plus he has paid over the past 13 years.

He's made it a crusade to push elected officials to do more to protect the state's elderly and infirm.

"Many people are old and too feeble to fight," he said. "Somebody has to stand up."

Jackie Crosby • 612-673-7335