Future of long-term care insurance in flux

Rates are rising, but more options are on the way

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New options in long-term care policies include shared care products, life insurance hybrid products and long-term care partnership programs.

As Americans are living longer, they are facing the staggering cost of nursing homes and assisted-living care, often without a financial safety net. Long-term care insurance is one way to prepare for the growing expenses, but the industry is undergoing changes and the products are confusing and costly.

The long-term care insurance industry did not have many carriers to begin with. And now the industry is shrinking, prices are rising and carriers are limiting their coverage. Since 2010, five key insurance carriers have exited the market, according to a recent Moody's Investors Service report.

"As the market stands, currently there is considerable uncertainty as to its future," says Laura Bazer, Moody's vice president. "The question is, will new players come in and fill their shoes and will the products that the players are selling be useful to policyholders?"

The increase in rates will not only affect new policyholders. Even existing policyholders will see sharp increases in their premiums, although their carriers must seek permission from state insurance departments.

Currently, long-term care insurance costs average about $2,000 a year for a single person age 55 and more than $2,400 a year for a couple who are also 55, says the American Association of Long-Term Care Insurance.

Long-term care insurance is not for everyone. Consumers who have not saved much money don't need it because they would qualify for Medicaid. And those who have more than $5 million do not need long-term care insurance because they can self-insure their assets, says Byron Udell, founder and CEO of AccuQuote.

It is those in the middle who have the most to lose if they don't have long-term care insurance. It is especially important if they want to be able to leave behind assets for their children, Udell says.

Typically long-term care insurance plans have a waiting period, such as 90 days, before policyholders would begin to receive benefits. And although nursing home care is very expensive, in California, for instance, a large percentage of elderly people are in nursing homes for 90 days or less.

Today more than 85% of care is received outside of nursing homes, says Deb Newman, chairman of the Life Foundation. And people may not need as much long-term care insurance if they are being cared for at home.

One of the biggest complaints among consumers is that they may die without ever using long-term care insurance. That is why the industry is starting to come up with some new products to address those concerns. Among them:

▶ Shared care products that allow a married couple to take out separate plans that are connected. "If the first person passes away without using it, the benefit transfers to the spouse," Newman says.

▶ Hybrid products that are a life insurance policy that has a rider for long-term care insurance. Only a handful of companies offer it now, and it is being perfected, Udell says. But the hybrid provides a way to set up a pot of assets that can be used for long-term care. And if it is never needed for that, the family will receive a life insurance benefit.

▶ Long-term care partnership programs, which are offered in about 40 states. The advantage: Americans who have a state-approved, private long-term care insurance policy will be able to hold onto more of their assets if they later need to apply for Medicaid.

Americans can expect to live longer, and at some point many may need to be taken care of, and long-term care insurance could be useful. But as the industry seeks to reduce its risks, "at what point does long-term care become too costly for an individual or not have enough benefits to make it worth purchasing?" Bazer asks.