The Long-Term Care Insurance Industry Ponders Its Future: Seven Trends To Watch

Howard Gleckman Forbes Contributor

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I recently returned from a few days at the long-term care insurance industry's national conference, held this year in Colorado Springs. The organizers asked me to participate in a panel discussion on policy solutions to the challenges of financing long-term supports and services. But I also had an opportunity to listen to what insurance company executives, brokers, and actuaries had to say about their industry's future.

In short, they see a very uncertain world. Carriers are experimenting with new products but few are making major commitments. They are struggling to identify new buyers and are more concerned with reducing risk than opening new markets. And, in a major shift from a few years ago, many attendees were looking for ways to partner with government and create some form of public/private insurance.

The industry is going through an extremely difficult period. Sales of new stand-alone policies have plummeted by 75 percent from a decade ago. Ninety percent of the carriers that were selling long-term care insurance 10 years ago have withdrawn from the business. Those that remain are tightening underwriting standards and have pretty much stopped selling true catastrophic insurance. And many (though not all) are still raising

premiums on existing policies– all in an effort to reduce risk to their shareholders.
Traditional stand-alone policies that pay benefits of, say, $150-a-day for four years, with 5 percent compound inflation protection, are simply too expensive to sell to middle-income households (such a policy would cost a 60-year-old more than$3,000-a-year). There may still be a market for such policies as part of an estate plan for wealthy clients, but they are simply unaffordable for the middle-market.

So what can consumers look for in coming years?

A new premium structure: Long-term care insurance, like most life insurance, is built on a model of level premiums where rates stay steady for years. But because claims have been so much higher and investment returns so much lower than expected, carriers been asking states for big rate hikes every few years. Now, Genworth FInancial, by far the largest LTC insurer, is pressing for a new model where it could raise rates by small amounts each year on new policies, just as happens with health, auto, and property insurance. Competitors are interested to see if this effort succeeds, and may follow suit.

Cheaper policies with less coverage: More carriers are selling shorter-term policies and smaller daily benefits—say, $50-a-day for a year. Many are also looking to scale back inflation protection. Instead of 5 percent compound benefit increases, they push clients towards 3 percent. The aim of all these strategies: Attract new buyers by reducing premiums.

Simpler products that could be sold online: Some insurers are thinking about ways to sell their products directly through electronic marketplaces. This would require vastly simplified policies that could be easily compared (something like Medigap insurance).It would require big regulatory changes and the brokers would hate it, but it could also cut consumer costs.

No rebound for group stand-alone insurance: Once considered an industry savior, group policies have fallen out of favor. Employers don’t pick up any share of premiums as they do with health insurance, employees are not clamoring for the benefit, and risk-averse insurers worry that selling with only limited underwriting will only expose them to unacceptable risk.

More combo products: These hybrids of long-term care insurance and life products such as annuities remain controversial within the industry. Some firms, such as Lincoln Financial, have made them a key part of their retirement product line. But other firms have been more cautious, and say that sales of hybrids have also slowed. That said, carriers are tinkering with many variations of multi-risk products. Look for more to roll out over the next year or so.

Combining health and long-term care insurance: There was a surprising amount of hallway chatter about this idea, but it still seems years away. The product is more likely to be sold by health insurers but LTC carriers want to see if the model is actuarially sound. A big challenge: How to combine pay-as-you-go health insurance with pre-paid LTC insurance.

A public/private insurance partnership: A few years ago, this was an idea that few in the industry would even consider. Now, many attendees think it could revive their business and are waiting to see what such an idea would look like. Many favor a government catastrophic benefit (a product private carriers have largely stopped selling). The idea: Consumers could cover the first few years of long-term care risk with a mix of savings, home equity, and short-term private insurance. The relatively few who need care for, say, five years or more, would have a backstop of government insurance. The big question: How would such a product be funded?