Early CalPERS Long-Term Care clients squeezed by rate hikes

Two impending hikes that would boost premiums for existing CalPERS Long-Term Care insurance customers by 90% make coverage hard to justify, one policyholder said.

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Financial adviser Lawrence Grossman is holding onto a long-term care insurance policy he started 20 years ago, even though his premiums are five times what they originally were.

But that might not be the case for much longer. With two impending rate hikes that will increase premiums for existing CalPERS Long-Term Care insurance customers by 90%, the cost will be hard to justify, Grossman said.

That wasn't supposed to happen, he said. Two decades ago, California's then-young program offered competitive rates that were marketed as intended to stay low over time. After rate increases in 2013, some participants sued CalPERS, claiming that the program broke a promise not to increase rates, leading to a consolidated class-action lawsuit that is set to go to trial in November.

"When I bought this policy, I had been a licensed insurance agent for a decade. From my experience working with insurance companies, I was very wary of them. My trust level was very low. That's why I bought CalPERS," Grossman said. "It was not the best policy. I felt it was the most secure way to go."

Others who signed up for coverage early in the program's history have faced similar increases, according to the lawsuit. There were 5% increases in both 2013 and 2014 and an 85% rise in 2015 for policies written between 1995 and 2004. One of the lead plaintiffs was initially paying $179 per month, which rose to about $794 by 2015. Another plaintiff's premium went from $58 a month to $304, according to the complaint.

RISING COSTS OF CARE

It's a problem that's ubiquitous in the long-term care insurance business. Years ago, insurers built out products that were extremely attractive to baby boomers and older customers, but they dramatically underestimated how much the policies could end up costing and counted on more people discontinuing coverage than actually did. Those books of business weighed on insurers as increases in life expectancy and higher costs of care made benefits costly to provide. Companies responded by ratcheting up premiums, lowering benefits and becoming more stringent about whom they approve for new policies. Some exited the business.

About 7.5 million people in the U.S. had long-term care insurance as of the beginning of 2020, according to data from the American Association for Long-Term Care Insurance. The median annual cost of long-term care in 2020 ranged from about $19,000 for adult day care to nearly $106,000 for a private room in a nursing home, according to figures from Genworth Financial.

By comparison, the median rate for a private room in a nursing home was just over $60,000 in 2005 and $75,000 in 2010.

"Across the board insurers that offer both individual and group long-term care insurance policies have experienced a trifecta of problems that have necessitated raising premiums or offering policyholders an option to reduce their benefits," Jesse Slome, executive director of the American Association for Long-Term Care Insurance, said in an email.

The lower-than-expected lapse rates were "proof that consumers who purchased this protection wanted it and understood the value," Slome said. Claims have been higher than anticipated, and low interest rates have added to the problems, he noted.

"Combine it all and you have a need for change. Of course, in 1995, it was hard to project what would happen in 15 years," he said.

For those who can't pay higher rates, a reduction in coverage is an alternative, Slome said. "Many people find their assets (stock portfolio/home value) have grown significantly and they can do with less coverage than they initially anticipated needing."

Last November, CalPERS approved two rate hikes — one of 52% that will take effect later this year and another of 25% that could be implemented in 2022. Those increases are not part of the ongoing lawsuit.

"I am inclined to terminate [coverage] because the way the policy is going, the premium is doubling every six years or so. I'm only 70," Grossman said.

Initially, he and his wife, who was a public employee, paid about $2,000 a year for coverage, though it is now around $10,000, he said. It will be closer to $20,000 after rate increases take effect, he said.

After the premium increases several years ago, he continued coverage, assuming that the class-action suit would result in the program eventually lowering rates or making customers whole, he said. As costs continue to rise, the pressure to walk away from the policy grows.

"When you buy a long-term care policy, you plan on keeping it for the rest of your life," Grossman said. "I never would have bought it if I knew the rates were going to go up like this."

Other group plans, such as The Federal Long Term Care Insurance Program, have also had to raise premiums, but those increases have been considerably smaller than the ones implemented by the CalPERS program, he said.

FEW OPTIONS AVAILABLE

CalPERS declined to comment on the lawsuit and the criticism of its rate hikes. The program was established by state legislation that does not allow public money to be used to fund it.

Without a change that could allow the state to help subsidize the program, there are few options beyond raising rates or lowering coverage.

“The math is simple, but it’s inhuman,” Grossman said. “I think the state should step in … The legislation was, let’s say, deeply flawed. And there’s no reason why it shouldn’t be changed.”

There were an estimated 125,000 class members when the 2014 lawsuit was filed, “many of whom are elderly and living on fixed income,” according to the complaint.

Presently, the program is not open to new customers “due to the current uncertainty in the long-term care market,” it notes on its site. It had similarly closed to new policies in the past before rate hikes were implemented.

With the forthcoming rate increases, Grossman is trying to raise awareness, writing an extensive blog post that has appeared on several sites.

He and his wife do not have children whom they could rely on for care, although they are fortunate to be financially stable, he said. For many public employees and their families, that might not be the case, Grossman said.

“When I got the news [about premium increases], I couldn’t sleep for two nights,” he said. Walking away from the policy would mean “that support that I had created over the 20 years for my old age, just blown away.”