Health of long-term-care business questionable: Moody's

Re-pricing of products may not be enough to offset onerous in-force contracts

By Darla Mercado

September 19, 2012 4:15 pm ET

Long-term-care insurance continues facing pressure on several fronts, particularly as the market consolidates and payouts for in-force contracts rise.

The field of LTCI providers is shrinking as companies exit the business or limit their sales. Of the 15 companies that generated the most statutory earned premiums for LTCI in 2010, five either no longer sell the product or have curbed sales. The list includes John Hancock Life Insurance Co., MetLife Inc., Unum Group, CNO Financial Group Inc. and Prudential Financial Inc. According to a recent report from Moody's Investors Service, the group of 15 accounted for 85% to 90% of the industry's total individual and group LTCI business in 2011, comprising $11 billion in statutory earned premiums and about $70 billion in statutory liabilities.

At the top of the heap, Genworth Financial Inc. remains the biggest seller of LTCI, taking in $2.14 billion in statutory earned premiums for individual and group coverage, Moody's noted, making the carrier “the clear LTC market leader and largest single provider of individual LTC products.”

Having a dominant player in the space may not bode well for the overall industry, however. The ratings agency anticipates limited material appetite for LTCI business at Genworth.

A call and an e-mail at 2 p.m. EST to Tom Topinka, a spokesman at Genworth, was not immediately returned.

Fewer companies, low rates hit

What's more, sales across the board likely will take a dive now that there are fewer companies willing to offer the product. Low interest rates also are hurting the product, as 40% to 60% of each dollar in paid benefits comes from returns carriers make on bonds, according to the American Association for Long-Term Care Insurance. “In terms of the industry having one single player for a large portion of the business, it's a reason we wonder about the future size of the sector,” said Laura Bazer, vice president and senior credit officer at Moody's. “How much more incremental business would one player want to take on in light of so many exiting?”

Certainly, legacy LTCI business puts carriers in a tough spot. Insurers didn't anticipate insureds living for so long or running up such enormous tabs. That's left carriers with a badly underpriced product. And demand is expected to remain high as the people 65 and up face 68% odds that they will become unable to perform at least two activities of daily living or that they will become cognitively impaired, according to data from America's Health Insurance Plans.

At the same time, as companies try to raise premiums to reflect these risks, state insurance regulators have cast a jaundiced eye toward rate hikes on seniors, according to Moody's: 75% of all 2011 individual policies were purchased by clients 55 and older, according to the AALTCI.

Though insurers have been promoting combination products that pair LTCI features and life insurance, Moody's is unsure whether the product ultimately will take off. These offerings have two- to three-year benefit periods and they ultimately require more money upfront, which could make it less attractive for consumers, according to the ratings agency.

“Whether hybrid products meet the needs, because the benefit is limited, is still a question,” Ms. Bazer said.

While conservatively designed policies and more expensive policies could buck up insurer, the in-force blocks will continue to be a drag. “Sizable underpriced blocks of older in-force business continue to exist and may cause earnings troubles for companies in the years to come,” the ratings agency noted in its report.

Old-age question: Are LTC policies good deals for younger clients?

Number of people under 45 who buy long-term-care insurance is on the rise; cheap premiums

By Liz Skinner

September 6, 2012 3:43 pm ET

Advisers know full well that only a small percentage of long-term-care policies are sold to people under 45. But what they may not know is that when those contracts are tapped at a young age, the benefits can be substantial.

About 3.5% of those who purchased individual LTC plans last year were 44 or under, according to data from the American Association for Long-Term Care Insurance.

The youngest claimant purchased his policy when he was 21 and began receiving benefits three years later. He has received payments for seven years, the association said. The youngest woman bought coverage at 28 and later that year began receiving benefits, which have added up to more than $135,000, the industry group said.

"The number of younger individuals purchasing long-term-care insurance on an individual basis and through their employer is growing," says Tim Kneeland, president of Transamerica Life Insurance Co., an LTC insurer.

In fact, the average age of the 337,000 Americans who bought LTC insurance last year was about 57, compared with 67 a decade ago, according to Jesse Slome, executive director of the association.

About 11.5% of those buying the insurance through a group, typically their employer, were under 45 last year, the association said.

But LTC insurance is a tough sale with young people who tend to believe that the accidents or diseases that could cause someone to require such a policy aren't going to happen to them.

“LTC is not at the top of anybody's list under age 50,” said financial adviser Leslie Knudsen of Knudsen & Associates Inc. “I think it's good to have, but not affordable unless you're buying it in the workplace.”

An LTC policy that offers $164,000 in immediate benefits, and has an option to increase coverage in future years, costs about $635 a year for a 25-year-old, according to the industry group.

Why LTC insurance is a better bet for women

Longer life expectancy, coupled with unisex policy pricing, boosts the value proposition for female clients

By Liz Skinner

August 28, 2012 3:22 pm ET

Long-term-care insurance often is a better investment for women than men because they live longer and more often spend their final years living alone, experts said. It's also a better financial deal, at least for now.

“If you can only afford long-term-care insurance for one person in the family, you technically should buy it for just the woman,” said Carolyn McClanahan, a financial planner and physician.

In fact, two-thirds of the new claims under LTC policies last year were made by women, according to the American Association for Long-Term Care Insurance. The largest claim still being paid under an LTC policy, as of the end of 2011, was for a woman who has been receiving care for almost 15 years, for a total cost of $1.7 million, the association said.

Ms. McClanahan recently recommended that a couple who are both in their early 70s purchase a long-term-care policy only for the wife.

“It just didn't make sense for him because the cost of the policy didn't really give much benefit," she said. "But for her, it gave a very nice benefit because her [expected] longevity is much higher than his even though they are close to the same age.”

The policy also “gave him peace of mind to know that she was going to have money to be taken care of when he died,” Ms. McClanahan said.

The average life expectancy of a 65-year-old woman in 2009 was 20.3 years, compared to a man of that age who was expected to live 17.6 years, according to the Centers for Disease Control and Prevention.

“Long-term care and long-term-care insurance are really women's issues because women are the majority caregivers and, ultimately, the majority of the care recipients,” said Jesse Slome, executive director of the LTC insurance association.

He said women also get coverage for a discount, of sorts, because the policies are priced without regard to gender. Therefore, a single man and a single woman pay the same for a policy even though a man is statistically less likely to use it.

That pricing, however, could change in the future because some insurers are starting to look at distinct rates for the two sexes, Mr. Slome said.