

This risk can dissolve your retirement savings by \$97,000 each year

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- Costs for care in a nursing home are approaching \$100,000 a year.
- Long-term care insurance companies have sought premium hikes as high as 94 percent.

Near-retirees wanting to shield themselves from nursing home costs face a quandary: Should they eat double-digit rate hikes for long-term care insurance, or should they walk away from their policy?

It's a \$97,455 question.

(That's how much a year of nursing home care in a private room costs, according to data from insurer [Genworth Financial](#).)

Although long-term care insurance can help retirees and their families manage that expense, many of them are now finding themselves squeezed by premium rate increases.

"Often the peace of mind that people feel when they had just bought the product is an illusion — there is no fix for it," said Scott Witt, founder of Witt Actuarial Services in New Berlin, Wisconsin.

"Now if you want catastrophic protection, you need to pony up for premiums, and those policies are harder to find," he said.

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For instance, in 2016, Unum Life Insurance Company of America had asked insurance regulators in Pennsylvania for three 24.8 percent increases on a block of long-term care insurance policies, compounding to 94 percent over three years.

"One of the steps we have taken at Unum to decrease the financial risk posed by our long term care business is to file for premium rate increases as allowed under our contracts and the law," said Unum spokeswoman Kelly Spencer. "Increases may vary by policy or plan feature, but we do strive for parity across all states."

Here's why the long-term care insurance market is in disarray and what it means for your retirement planning.

Heyday of long-term care policies is over

As recently as the 1990s, there were more than 100 insurers offering long-term care coverage, according to the National Association of Insurance Commissioners. Today, there are only about a dozen.

Ranks have thinned as insurers grapple with major difficulties: Low interest rates, too few people surrendering their policies, and more customers than expected using their benefits, said Witt.

"Original long-term care insurance data was based on an era when people didn't have policies," he said. "But if you get coverage, you're more likely to use it."

The long-term care insurance business continues to cause companies pain. General Electric announced on Jan. 16 that it would take a \$6.2 billion charge for the fourth quarter of 2017, stemming from a book of long-term care policies.

Stay or go

Think twice before you cut bait on your policy, even if premiums are rising. Older long-term care policies offer benefits that are more generous than more recent ones, including shorter benefits waiting periods and longer benefits durations.

See below for a comparison.

Characteristics of long-term care insurance policies in 1990 and 2015

Policy Characteristics	Average for 1990	Average for 2015
Policy Type		
Nursing Home Only	63%	<1%
Nursing Home & Home Care	37%	99%
Home Care Only	----	<1%
Benefits Waiting Period	20 Days	93 Days
Nursing Home Benefit Duration	5.6 Years	3.8 Years
Annual Premium	\$1,071	\$2,772

Source: LifePlans, Inc. Analysis of AHIP Reports*

Further, you may be harder to insure now compared to when you first bought your policy, so you'll have a harder time replacing it.

"When I get the details on these contracts, they offered generous benefits that are mis-priced — that's where the increase in premiums are coming from," said Phil Jackson, an insurance planner at ValMark Financial Group in Akron, Ohio.

If your rates are going up, there are a few options to consider before abandoning ship, according to Rita Cheng, a certified financial planner and CEO of Blue Ocean Global Wealth in Rockville, Maryland:

- **Call your insurer.** If the cost of the coverage is going up by 25 percent, yet you can afford only 10 percent, find out what that will get you. Get everything in writing.
- **Consider freezing your current benefit.** That helps keep your premium costs low, rather than losing your coverage altogether.
- **Know where to make tweaks.** A modification to your daily or monthly benefit amount may be doable, as is switching your inflation protection if you have it.
- **Don't cut your home care.** Advisors say elderly clients prefer receiving care in the comfort and familiarity of their home.

Financial advisors are also recommending life insurance policies that combine long-term care benefits. This may make sense if you already need the life insurance in the first place.

"The client will either get the long-term care benefits or the death benefit," said Jackson of ValMark. "They have that confidence that they will receive something."

A new approach

Going forward, individuals ought to think about what they want out of long-term care, including how they'd like to receive their care and how long they expect to be in a care facility.

"Advisors need to talk about the logistics of aging with clients and documenting that — where will you move, who will help you make decisions," said Carolyn McClanahan, a physician and director of financial planning at Life Planning Partners in Jacksonville, Florida.

She has developed a tool called Whealthcare Planning to help clients figure out how they would prefer to be cared for in old age and how they would want to pay for it.

By addressing your wishes early in the planning process, you'll have a greater opportunity to prepare for the cost of care.

"Many people don't understand that when they're old, especially if they have cognitive issues, it's unsafe and very expensive to live at home," said McClanahan.

"But if you make the kids promise never to move you to a nursing home, they will spend every last dime not moving you," she said.