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Is the LTCi Sky Falling?

by Peter Gelbwaks, CLTC

No, I think not! Is our world changing? No question. Will there be more LTCI Carrier withdrawals, rate increases and plan design changes? No argument there. Will some agents, independent producers and marketers decide this environment is just too challenging and stressful? You bet. Will there be a rethinking of how to address this issue of aging, long term care and how to finance that risk? Yes, yes, yes, and that is going on as you read this article.

Let's begin with the basic facts, which include that all of us agree that the aging and graying of America is not going away, but instead, it is escalating before our eyes! I am a perfect example of this as I just had my 64th birthday and I am part of the very first wave of Baby boomers (born in 1946) who are turning 65 beginning in January 2011. This is happening at a pace unmatched in our history. Just think about it, approximately 10,000 people across America will be turning 65 every day beginning January 1, 2011 and that will continue for the next 20 years!!

So what do we know? We know that the long term care solution for these people will not be solved by hiding from the issue, nor will it be solved by depending on the Federal Government with, or without, the CLASS program in place. We also know that the great majority of Americans have not been able to save or plan properly for a long term care event and that the Medicaid system cannot, and will not, support their needs going forward. We also know, that family dynamics are continuing to change and family caregivers will continue to find less and less time to take over this enormous task as they struggle to work, care for children and be geographically challenged.

Additionally, we know that Americans (particularly older boomers) have been very slow to accept the reality of their own aging and what the possible loss of some of their independence really will mean to them. In turn, they have also been very slow to look at the solutions to this potential dilemma.

What conclusions can we then draw from this and how does this all relate to the long term care insurance industry? Pretty shocking answers to those questions seem to be surfacing and more rapidly than ever before. The carriers must now believe that they have been adversely selected against. The facts are they have made incorrect calculations as to how many people would buy long term care coverage (much less that they thought) and of that buying group, how many would make a claim (considerably more than they thought) and, once on a claim, how would the policy benefits be utilized?

The end result is that virtually all the committed LTCI carriers in our marketplace (even the very best ones) have been undercharging, and in many cases, over delivering. Combine that with the pool of buyers being too small for the last decade, and the selection of buyers continuing to be ones who have the greatest concern for the need, (verses a much smaller group who are doing proper planning as part of an overall financial plan), interest rates that have continued to stay at record low levels for an extended period of time and, we have the ***Perfect LTCI Storm***.

LTCI Carriers have now begun to put their existing business under a microscope and they have rapidly come to the same conclusion, and that is that major change needs to take place. In some cases, that means the drastic move completely away from selling any new LTCI business. In other cases, it means dissecting what they have sold and asking for significant rate increases on existing blocks of LTCI business and filing new higher rates for new plans going forward. Enough of the "bad" news!!

Things and times are changing rapidly and we must accept this as fact. As I said earlier, we have a huge aging issue to address in this country and that will not be changing for the next 2 decades and I for one very much believe that advisors can be, at very least, a good part of the answer. However, first and foremost we have to be willing to accept that change is upon us and we should welcome that with open arms. We all should know by now that true growth and broad opportunity comes with change and the advisor industry very much needs to embrace the idea that it can be the catalyst to solve the financial risk of aging.

So, let's examine the current situation. A good number of viable, well rated, very secure Carriers are currently still offering "traditional" long term care insurance and have learned a great deal from the mistakes of the past. In addition, numerous options are available now to mitigate the client's risks of future rate increases including limited payment contracts all the way down to 10 pay and single pay programs. Many other contract offerings exist and should be reviewed with your clients that make these plans extremely attractive. Let's also not forget that these policies are all "Guaranteed

Renewable", so as long as the client is buying from a stable carrier they will not be impacted by a possible future decision by that carrier to "withdraw" from a marketplace. That policy will remain in force and claims will be paid as long as premiums are kept up to date.

One popular alternative to the traditional LTCI policy is the "combination" or "linked" contracts that combine either life and long term care or annuity and long term care coverage's. Wonderful guarantees exist within these contracts including built in "free look" periods that in some cases can extend for the life of the client. Other very innovative plan designs are on the drawing boards and will be introduced in 2011 and 2012.

So here is my advice, let's take a collective deep breath and not overreact to the news you may be hearing. Your clients need your calm, sage advice and counsel (maybe more than ever) and numerous answers do exist that make very good sense for both them and you.

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