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Long-Term Care: What Now?

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By KELLY GREENE

Shopping for long-term-care insurance? You should expect higher costs and a tougher approval process as a growing number of household-name insurers quit selling the policies.

Prudential Financial PRU +0.05% said Wednesday it plans to stop taking applications as of March 30 for individual long-term-care policies, which help pay for nursing-home, assisted-living and home care. That will make it the 10th of the top 20 insurers by sales to announce that it is leaving that market in the past five years, according to Limra International, a research firm.

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Others include MetLife, MET -0.39% which in 2010 said it was halting coverage, and Unum Group, UNM +0.99% which said last month it would stop selling the coverage through employers.

Prudential Vice President Malcolm Cheung says the company decided to stop selling long-term-care coverage to individuals because of the uncertainty surrounding future claims and persistently low interest rates. The insurer plans to continue offering group long-term-care coverage through employers.

People typically buy long-term-care coverage in their 50s or early 60s and often pay premiums for 20 or 30 years before making a claim. Insurers build reserves for paying those claims through investment income, mainly from high-quality bonds.

Now, with such bonds offering low yields and aging policyholders making more claims, insurers are halting sales, asking state regulators for permission to raise rates for existing policyholders, or both.

Premiums collected for policies sold in 2011 increased 4% from 2010, even as the number of buyers dropped 2% to 230,000, according to Limra. Coverage costs about $2,350 a year on average for a 55-year-old couple or $4,660 a year for a 65-year-old couple, according to the American Association for Long-Term Care Insurance.

Prudential policyholders who bought policies between 2004 and 2008 could see premium increases of about 20%, pending approval by state insurance regulators, Mr. Cheung says.

Consumers, for their part, increasingly are choosing to trim their coverage to cut costs now, which could leave them on the hook for a larger share of future bills.

Here are some options for dealing with the retrenchment.

Use long-term-care insurance to supplement your costs, rather than to pay them all.

Some companies have dropped lifetime coverage, while others have raised premiums steeply. Now, it is more common for people to buy three to five years of benefits, says Jesse Slome, the American Association for Long-Term Care Insurance's executive director.

Married couples have the option of buying one policy with a "shared-care rider," meaning the benefits can be used by either spouse or split between them.

You also could consider lowering the daily benefit amount to a portion of what you would expect long-term care to cost locally. (There is a guide to local costs at Genworth.com/costofcare.) Or, you could stretch out the "elimination period," meaning the period you choose to pay your expenses yourself before coverage starts.

Tweak the policy's inflation protection.

The gold standard for long-term-care insurance has been 5% compound inflation protection, meaning a policy's benefits would compound by 5% a year to try to keep up with rising long-term-care costs. Now, more insurers are offering other types of inflation protection that don't increase as much, but also keep premiums affordable.

"Three percent inflation is being offered as an alternative to 5%, and some companies have dropped 5% altogether," Mr. Slome says.

Be prepared for extra scrutiny.

Many insurers now use nurses or social workers to screen applicants' health. Some, such as Prudential, check prescription-drug databases to see all medications that have been prescribed to applicants, Mr. Cheung says.

If you take memory drugs, use any type of assistance walking, have had a stroke or have a mild case of osteoporosis, insurance companies won't sell you a policy, says Henry Montag, a certified financial planner in Uniondale, N.Y. "It's far better to be honest with the insurance

company and to be turned down," he says. "They also do a very thorough investigation before paying your claim."

To that end, consider buying coverage at an earlier age. People used to buy long-term-care insurance in their 60s, and now more people are doing so around age 58, Mr. Cheung says. In the group business, the average buyer is in his late 40s—and premiums are, on average, less than $1,000 a year.

Consider buying a "hybrid" product instead.

You could buy a deferred fixed annuity, in which an initial investment that increases in value during your lifetime is packaged with long-term-care benefits, or a life-insurance policy in which a portion of the death benefit is paid out to cover long-term-care expenses. The appeal: Even if you never need long-term-care coverage, you (or your heirs) would still get a payout.

These products have tax advantages, too: Payouts used for long-term care aren't taxable. Neither are funds transferred directly from an annuity or the cash-value portion of a life-insurance policy to pay for long-term-care insurance.

But there are drawbacks. Such products typically involve a large lump-sum payment—$100,000 isn't uncommon—and can be complex. Plus, your money could be tied up for decades making lower returns than you could get in an investment without a long-term-care benefit.