



Ginsburg Financial Advisors, Inc.

Personal Financial Planning & Investment Management

*Larry P. Ginsburg, CFP® Judy Hirotaka, CFP®

phone: (510) 339-3933

fax: (510) 339-1611

LGinsburg@GinsburgAdvisors.com

JHirotaka@GinsburgAdvisors.com

www.ginsburgadvisors.com

Why the High Recent Long Term Care Insurance Premium Increases?

What Should You Do?

What is Long Term Care Insurance (“LTC”)?

LTC insurance provides benefits for home health care or care in an assisted living or skilled nursing home facility. These benefits are not furnished by Medicare, a Medicare supplement or HMO insurance policy.

Why is LTC Insurance Important?

Planning for retirement includes avoiding the three major reasons why people fail to be successful:

- 1) Not saving enough money to support monthly/annual withdrawals to pay for living expenses during retirement
- 2) Not having a comprehensive Medicare supplement or HMO plan to avoid huge out of pocket medical expenses
- 3) Not having sufficient financial reserves to pay for LTC expenses

As the benefits of the “miracle of modern medicine” keep us living longer and healthier, fewer people now die of a heart attack. Most of us will experience declining health over a period of time. As a result, many of us will require additional health care services. LTC services are now being used by more of us than ever before.

Why are LTC Premiums Rising?

Many of our clients who own LTC policies have recently received notice of rising premiums from their LTC insurers. The rising cost of care and greater utilization of LTC insurance policies are two main reasons for these increases. The American Association of Long-Term Care Insurance has noted that premium increases are primarily due to increases in longevity, cost of care, low interest rates and low lapse rates.¹

According to The World Bank, since 1960, longevity in the United States has increased by approximately nine years. In 1960, the life expectancy at birth was 69.77 years old. In 2019, the life expectancy at birth was 78.79 years old.² As we live longer, the cost and duration of care increases.

In 2020, the cost of care in a nursing home facility in California (individuals who need a higher level of supervision and care than in an assisted living facility) ranged from around \$9,200 to \$11,400 per month depending on room type (private or semi-private).³ From 2004 to 2020, nationally the cost for a private room in a nursing home increased approximately 62%.⁴

“Helping You Shape Your Financial Future Since 1981”

Ginsburg Financial Advisors, Inc. – A Registered Investment Advisor
Securities through Cetera Advisor Networks LLC* – Member FINRA/ SIPC
(*doing business in California as CFGAN Insurance Agency)

Ginsburg Financial Advisors, Inc. and Cetera Advisor Networks LLC are separate companies

Larry P. Ginsburg, CFP® – California Insurance License #0698190

6201 Medau Place, Suite 101, Oakland, CA 94611

Not only did LTC companies underestimate longevity and the rise of the cost of care, but they also overestimated the return they would receive on invested premiums. Insurance companies, in general, are conservative and look for lower risk investments such as bonds for investment returns. What they did not predict was that interest rates would decline from double digit to low single digits and remain low for decades. This resulted in bond portfolios growing at a far slower pace than the rising cost of long-term care.

Insurance companies also underestimated the number of policy holders that would continue to maintain their LTC policies rather than let them lapse.

How Can LTC Premiums be Raised?

Due to these factors, LTC companies have been raising premiums to ensure they can continue to pay claims now and in the future. Having said this, LTC companies cannot raise premiums without approval from each State's Department of Insurance (DOI). LTC companies need to apply to each State's DOI and justify their proposed rate increase. The DOI will review the premium increase request and may approve, request to modify, or possibly not authorize the premium rate increase. Only after the State's DOI approval can any increase in premium go into effect.

As an example, here in California, the State DOI has evaluated requests for LTC premium increases over the thirty plus years that this insurance has been available.

For those of us who have received premium increase notices, it is important to keep in mind the original reason you purchased LTC insurance. LTC transfers the risk of paying out-of-pocket for a portion or all of your LTC costs from you to the insurance company. On the other hand, the LTC company's goal is to decrease their own risk by increasing premiums and reducing coverage.

How Safe is My LTC Insurance Policy?

Your LTC insurance policy is very safe. In California, if an insurance company goes bankrupt, the Insurance Commissioner assigns the policy to another insurance company who must honor the same benefits and premiums in the original contract you purchased, plus any premium adjustments approved by the DOI. This has happened many times in the past, especially when many insurance companies specializing in selling guaranteed fixed rate annuities failed thirty years ago.

How Much are the Current Premium Increases?

We learned that many LTC insurance companies have recently had annual premium increases approved of 50% or more. When policyholders are notified of these increases, they also receive other offers to adjust their coverage to lower levels to avoid the large annual premium increase. Frequently these offers allow the policy holder to accept lower daily and/or lifetime benefits. The insurance companies prefer that consumers accept lower potential benefits, as this mitigates the risk of insurance companies having to pay larger benefits in the future.

What Should You Do?

Evaluating your goals and objectives and then determining the best way forward is the right way to make this decision. Many of our clients have already asked us about recent premium increases from their private insurers and also CalPERS, the state agency that furnishes LTC insurance for many in California.

None of us want to pay higher insurance premiums, however we also want to make sure that LTC companies will be there when we need them. If you do receive a notice of a LTC premium increase, it is important to carefully consider whether you should make any changes. We would be happy to review your LTC policy with you. Please let us know how we can help. (Larry just accepted a recent 50% increase on the LTC policy he has had in place for two decades.)

Those without LTC insurance who want to make sure that they have sufficient financial resources with which to pay for future LTC costs may consider the benefits of LTC insurance. We can help you learn whether LTC insurance will assist you in meeting your family goals.

¹ <https://www.aaLTC.org/long-term-care-insurance/learning-center/long-term-care-policy-rate-increases.php/>

² <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=US>

³ <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

⁴ <https://www.genworth.com/aging-and-you/finances/cost-of-care/cost-of-care-trends-and-insights.html>

This information was compiled by Ginsburg Financial Advisors.

The views stated in this newsletter are not necessarily the opinion of Cetera Advisor Networks LLC and should not be construed directly or indirectly as an offer to buy or sell any securities mentioned herein. Due to volatility within the markets mentioned, opinions are subject to change with notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment advisor representative. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.