Expert: Long-term care health coverage a hidden casualty of economic slide

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Many Americans have lost more than just retirement savings amid a year-long economic meltdown that has sliced the U.S. stock market's value by nearly half in a little over a year, a University of Illinois elder law expert says.

Law professor Richard L. Kaplan says many older investors also may now be short of funds for costly long-term medical care such as nursing homes if their health fails during their golden years.

"This is one of those silent crises that people don't think about because they don't get a statement every quarter showing how much their long-term health care risks have increased," Kaplan said. "They get a statement that their 401(k) is down, but most don't relate that loss to their increased long-term-care cost exposure."

Many retirees and workers nearing retirement have counted on retirement savings to effectively self insure against health-care expenses that are not covered by Medicare, such as nursing homes, at-home care and assisted-living facilities, he said.

But those once-healthy nest eggs have collapsed with the stock market, which could ultimately leave retirees unable to pay for long-term-care costs, including an average $77,000 for a year's stay in a nursing home, Kaplan said.

"This is a wake-up call for people who were willing to use their own resources for long-term care expenses, figuring that they'd never outlive their savings," he said. "The point is that now, after a 45 percent drop in the stock market, they just might."

With the market-driven decline in the value of retirement assets, many older Americans may be taking a second look at long-term-care insurance, Kaplan said.

"But that insurance is a risky product that has only gotten riskier in the last few months," said Kaplan, who wrote a 2007 paper that appeared in the *Lewis & Clark Law Review* calling long-term health-care needs the greatest gap in retirement planning.

"Nothing has happened since then to make people more comfortable with this product," he said. "What has changed is that people may need to consider it because their other investments have declined in value. But long-term-care insurance is even riskier today than it was just a year ago."

Hefty premium increases for existing policyholders that have long been charged by smaller insurers are now surfacing among the industry's very largest companies, he said. Three leading insurers – Genworth Financial, John Hancock and MetLife – had never before raised premiums for existing policyholders, but recently bumped rates by as much as 18 percent, he said.

Those rate increases come as policyholders grow older and may have no realistic alternative to paying higher rates, said Kaplan, a member of the National Academy of Social Insurance.

"The practice of raising rates on existing policyholders is a breach of faith and a slap in the face to those seniors who tried to do the right thing and take responsibility for their long-term-care needs," he said.

The economic downturn also has sparked concerns about whether insurers will still be in business when policyholders ultimately file claims, Kaplan said. One of the industry's largest carriers recently saw its credit rating downgraded, he said, and another essentially dumped all of its policies on a state-administered trust this week.

"These state trust funds try to guarantee policies in the event a company fails, but they have serious limitations such as caps on benefits," he said. "Their problems will be compounded further if several companies fail because the fund's assets can be depleted pretty quickly."

Because of the new risks, Kaplan says prospective policyholders should carefully examine benefits, scaling back coverage to keep premiums within their means. For example, he says adding home health-care coverage can raise premiums up to 50 percent, but is often inadequate because it typically provides just eight hours of care rather than a full day.

"I think that the essential takeaway is that private-market solutions are fraught with uncertainty and that prospective policyholders need to be sure that they will be able to afford the policy if there are significant rate increases," Kaplan said. "Retirees may need to buy lower benefit coverage because what they can afford today may not be what the policy costs down the road, regardless of the company involved."

Only an estimated one in 10 Americans has long-term health-care coverage, but Kaplan suspects the numbers will grow in light of the lingering economic crisis that has withered personal wealth.

"Virtually no one plans to end up a pauper and access Medicaid," he said. "So the alternatives are paying for it yourself or shifting the risk to an insurance company. The insurance option may have spooked people in the past and it's a spookier product today. But the prospect of paying your own way is a great deal chancier than it was a year ago."

Source: University of Illinois at Urbana-Champaign