Medical Xpress

High nursing home bills squeeze insurers, driving rates up

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In this Feb. 28, 2013, file photo, Tina Reese leads a word game for residents at a nursing home in Lancaster, Pa. Life insurance firms pitched long-term care policies as the prudent way for Americans to shoulder the cost of staying in nursing homes. But those same companies have found that long-term-care policies are squeezing their profits. (AP Photo/Intelligencer Journal, Dan Marschka, File)

Thirty years ago, insurance companies had the answer to the soaring cost of caring for the elderly. Plan ahead and buy a policy that will cover your expenses.

Now, there's a new problem: Even insurers think it's unaffordable.

Life insurance firms pitched long-term care policies as the prudent way for Americans to shoulder the cost of staying in nursing homes. But those same companies have found that long-term-care policies are squeezing their profits. Earnings for life insurers slid 11 percent in the most recent quarter, according to Moody's Investors Service, and long-term care was the chief culprit.

"Insurers that sell these products lose money on them," says Vincent Lui, a life-insurance analyst at Morningstar. "So they're raising prices and also trying to get out of the business right and left."

Four of the five largest providers—including Manulife and MetLife—have either scaled back their business or stopped selling new policies, according to Moody's. The largest provider, Genworth Financial, continues to offer them, yet has struggled under the weight of rising costs.

The trends behind the industry's troubles sound like good news outside the world of insurance. Older Americans are healthier and living longer. But that makes it difficult for the industry to turn a profit. Stays in nursing homes tend to last longer, so insurers have to pay out more in benefits than they had planned.

For older Americans and their families, however, there are few options besides private insurance. Medicare doesn't cover nursing home visits longer than a few months. The Obama Administration had planned to make a long-term insurance program part of the Affordable Care Act but eventually abandoned it.

Sean Dargan, an analyst at Macquarie Group, an Australia-based investment bank, expects to see more people turning to Medicaid, the government's health insurance for the poor, to cover the costs of care.

"It could really blow a hole through state budgets," he says. "I think states and the federal government are going to need to think creatively to find a way out of this."

For insurance companies, long-term care has proven to be a tough business.

Genworth, based in Richmond, Virginia, has turned in losses for two straight quarters. On March 2, the company reported that it discovered errors in its accounting for funds set aside to cover long-term care claims, knocking its stock down 5 percent in a single day. Analysts say problems with these policies explain why Genworth has lost more than half its market value over the past year, plunging from $17 to a recent $7.79.

"Their single biggest product is long-term care, and look at their share price," Lui says. "It's one trouble after another."

In an interview with The Associated Press, Tom McInerney, Genworth's CEO, says his company has been taking steps to make long-term care insurance a viable business, raising prices on older policies, introducing new products and throwing out their previous assumptions.

"There's clearly a very high need for these policies," McInerney says. "Given high demand and the limited number of insurers offering it today, I think it can be a very good industry going forward."

When they began selling policies widely in the 1980s, the industry made a slew of assumptions about how long people would live, health care costs, and interest rates. Nearly all of them turned out wrong, analysts say.

Take life spans. At nearly 79 years, overall life expectancy in the U.S. has never been higher, according to the Centers for Disease Control and Prevention. That's the biggest issue, analysts say, because it means more people who took out policies stick around to make claims, moving into nursing homes and asking insurance companies to help cover the steep bills.

The rate for staying at a nursing home has gone up an average of four percent every year for the last five years, according to Genworth's annual survey. In 2014, the median bill for a shared room topped $6,000 a month.

"They were making their best estimates at the time. They just turned out to be wrong," says Shachar Gonen, a Moody's analyst who covers the industry. "If insurers knew full well what they were getting into, they probably would have priced their policies much higher. So who knows if the long-term insurance business would have ever started."

The industry's actuaries also made a bad call on the bond market, betting on much higher interest rates. That misstep proved critical because insurers buy bonds to cushion against future payouts, so years of historically low interest rates have thrown their accounts out of balance. It's yet another reason why insurers keep putting more money aside to cover claims, resulting in big charges and lower profits.

All of these trends have forced companies like Genworth to spend much more than they had planned. Last year, insurers paid out a record $7.5 billion in claims on these policies, according to the American Association of Long-Term Care Insurance, which tracks insurance rates.

To cope with mounting costs and faulty assumptions, insurers have been cutting benefits and hiking their premiums year after year. Average premiums for new policies rose nearly 9 percent over the past year.

Prices range widely, depending on where you live, your age, level of benefits, and much else. In Tennessee, for instance, a 55-year old woman who is healthy enough to qualify for a policy can expect to pay $2,411 in the first year for $136,000 in benefits. That's a brand-new policy, likely the lowest premium a person will pay. The expense climbs steadily as people age, and those holding policies typically don't make a claim until they reach their 80s.

Insurers keep asking state regulators to let them raise prices on existing policies. In the last month, TIAA-CREF Life Insurance, MetLife and American General asked Connecticut's insurance department for permission to raise rates as much as 22 percent over three years. The state rejected American General's request and approved the other two.

McInerney, Genworth's CEO, says that when regulators refuse to allow changes— such as signing off on single-digit rate increases or allowing other tweaks to older policies —the business becomes "'impossible to run."

If they're not flexible enough to help make long-term care insurance viable for insurers, McInerney says he has told regulators that "Genworth isn't going to stay."

"Without it," he adds, "a lot of these Baby Boomers are going to wind up on Medicaid."

Analysts who follow the industry think that insurers have learned from their missteps and probably figured out the right price to charge for long-term care policies to turn a profit. The problem is, it might be too high for most people to pay.

"I'm of the opinion that it's appropriately priced today," says Macquarie Group's Dargan. "But it's also out of reach for most middle-income Americans. And that's who needs it the most."