Long Term Care Insurance Rate Increase Risks Greatly Diminished

Los Angeles, CA [Marketwire - April 16, 2014] – An individual purchasing long term care insurance protection today faces a significantly lower risk of future premium rate increases says a leading expert.

"Individuals considering long term care insurance mistakenly believe that rate increases on policies purchased years ago will also affect new buyers," explains Jesse Slome, director of the American Association for Long Term Care Insurance (AALTCI). "There are important differences today that minimize the risk that a long term care policy purchased in 2014 will experience large future rate increases."

"When it comes to long term care insurance the past does not always predict the future," Slome states. "State regulations and oversight, use of more conservative interest rates based on future years of historic low interest rates and pricing assumptions based more fully on realized experience make me confident circumstances today are dramatically different."

"There's nothing but upside here in terms of diminished risk of future rate increases," Slome notes. Industrywide pricing for long term care insurance policies sold between 2000 and 2008 was based on expected investment returns of between four to seven percent. The plummeting of interest rates hurt insurance carriers and higher premiums are needed to ultimately pay the future claims, Slome explains. He notes that carriers cannot utilize these losses as justification for rate increases.

"Anyone with a bank CD knows how low interest rates have fallen since the start of the Great Recession," Slome states. "Long term care insurers today assume a conservative 3% to 5% long term investment return for new policies. Ten-year U.S. Treasuries yield 2.80 percent compared to 4.40 percent in 2004. Unless you forecast interest rates will drop lower, that eliminates one risk for insurers that ultimately benefits consumers," he points out.

More Reasons New Long Term Care Insurance Unlikely To Repeat Rate Increase Scenarios

A second reason for optimism is conservative pricing assumptions used by insurers. "Insurers must predict the percentage of policyholders who will voluntarily lapse or drop their coverage each year," Slome explains. Policies priced in 2000 generally anticipated between three and five percent of policyholders would lapse yearly.

"It turns out that people who buy long-term care insurance understand the importance and value of this protection," Slome shares. "Actual lapse rates are only about one percent annually over time," he reports. "If an insurer anticipated paying $100 million in future claims based on a 5% annualized lapse rate, they could like face roughly $150 million in potential future claims based on a 1% lapse rate."

Considering that insurers paid $7.5 billion in claims last year, a 50% increase in future claims costs would be significant. "Today's policies, however, use very conservative lapse rate assumptions, typically as low as one percent," Slome explains. "Another past problem addressed and another reason we are optimistic about the future."

Finally, Slome shares that State regulators who oversee insurance products now require that insurers factor moderately adverse conditions in their pricing. “There’s quite a bit more scrutiny and an insurer seeking a future rate increase would have to provide significant detail as to why their projections were wrong. The hurdles today are much higher and some states are outright declining requests,” he adds. “No one can predict what the next 10, 20 or 30 years will look like but the conditions that created a need for rate increases on older policies just do not exist today.”