DIVISION OF INSURANCE

Long-Term Care Policy Premium Increases
Frequently Asked Questions

We have compiled some basic questions and answers to help you better understand the issues surrounding long-term care policy premium increases.

Q. How does long-term care insurance compare to other types of health insurance?

A. Long-term care insurance is unlike any other kind of health insurance. One difference is that it has a much longer term focus than other types of health insurance. This "long term focus" makes it more similar to life insurance, but unlike life insurance, the claim costs are less predictable.

Health insurance policies that cover only cancer and other "dread" diseases typically also have a long term focus, but there is generally a greater chance of being diagnosed with cancer before the age of 65 than being admitted to a nursing home or needing some other type of assisted living. Because of this, companies who first entered the long-term care insurance market were faced with unique problems and challenges.

Q. Doesn't a rate increase first have to be approved by the Division?

A. Colorado law requires long-term rate filings in Colorado to be made on a "file-and-use" basis, meaning that the company must file the rates with the Division before they start "using" them, which includes sending out premium increase notices. This means that the Division does not approve the rate filings, but each rate filing is reviewed by the Division to ensure that the supporting documentation submitted is complete and that the rates are not inadequate, excessive or unfairly discriminatory. In addition, the company must submit supporting documentation with each rate filing which gives sufficient justification for the rate increase.

Q. Why do my long-term care premiums need to be increased?

A. There are a number of reasons why insurance companies need to increase premiums:

- Policyholders are collecting benefits earlier and using them longer than companies originally anticipated, resulting in a much larger number and amount of claims.
- Policy "lapse" rates have been less than the insurance companies had projected: policyholders are keeping these policies longer than they were keeping other types of health policies.

- Significantly more individuals than expected chose plans with built-in inflation protection.
- Insurance companies did not medically-underwrite the initial policies properly, which has resulted in a larger number of claims than the companies originally projected.
- Reduced investment income: investment interest rates have decreased dramatically over the last five or more years, so the policy reserves have not increased as much as the companies thought they would.

Q. Why didn't companies predict that more policyholders would keep their policies longer than other types of health insurance?

A. In the 1980's and 1990's, competitive pressures helped keep long-term care premiums relatively low. The companies knew that if they set premiums at a level to cover the worst possible scenario that no one would buy these policies. Companies also knew that they could increase premiums in the future, if necessary, because most of the long-term care policies were sold on a "guaranteed renewable" basis. This means that the companies retained the right to increase premiums in the future, but they did not have the right to cancel the policy as long as the required premium was paid.

The companies were counting on a certain number of policyholders canceling, or "lapsing," their policies. They believed that, as with other types of health products, a number of policyholders would decide not to keep their policies or that they would cancel their coverage with one company and switch to another company within the first few years of coverage, which allows the company to collect the premiums without having to pay on many, if any, claims. When some policyholders lapse, or switch companies, it helps to keep premiums lower overall because the companies count on being able to use these premiums to help pay the claims for the policyholders that keep their policies active.

At the time long-term care insurance first began to be sold, companies really did not have any idea how many policyholders would choose to keep their policies and how many would choose to cancel their policies. Long-term care insurance was a new type of coverage and there was nothing similar to compare it to. Long-term care products proved to be different from other types of health products and policyholders did not cancel or switch companies at the same rate as was occurring with the other health products. This meant that the companies weren't collecting enough premiums from their policyholders to cover the claims they were expecting to receive. Because of the longer period of time between the time the policies were issued to the time when claims were expected to be received, the difference in the "lapse" rates had a very significant adverse impact on the amount of their policy reserves.

Q. What does a premium increase mean to me?

A. It means that you will need to pay the new premium in order to continue your current policy. Most insurance companies will give you options to consider when they mail you the premium increase notice.

Q. What are the options if my long term care insurer sends me a notice of increased premium?

A. You may accept the premium increase and maintain your existing coverage.

You may also be given the option to select a lower level of coverage, such as:

- A lower daily benefit amount;
- A longer elimination period (an elimination period is the initial waiting time when you pay costs for long term care before the insurance begins coverage; often 30, 60 or 90 days. There is a specific number of days of care that an enrollee receives and must pay out-of-pocket before the insurance company begins to pay for long term care.);
- A lower maximum benefit period; or
- A “paid-up” policy option.

It is important to carefully think about what these changes will mean to the long-term care coverage you think you might need some day. We recommend discussing them with a trusted financial advisor or your insurance agent. The insurance company providing long term care coverage should also give you a toll-free telephone number to call if you have any questions about these options.

Q. What is a “paid-up” policy option?

A. If you have received a substantial premium increase, one of the options that you may be offered is the ability to stop paying premiums entirely and elect a “paid-up” policy with a shortened benefit period. The benefits provided by this “paid-up” policy will be determined by how long you’ve had the policy and by how much premium you’ve paid.

Q. Isn’t it illegal for long-term care insurance companies to raise my premiums?

A. No, it’s not, as long as the rates are not considered excessive. Most policies are “guaranteed renewable,” which means that the insurance company cannot cancel your policy as long as the premiums are paid. These policies contain a specific policy provision allowing the carrier to increase premiums even though this may be the first time in several years that it has increased your premium. Companies may have to increase premiums to ensure they will have enough financial reserves to pay for all the benefits they anticipate paying to insured individuals.

Q. How often and how high can my premiums be increased?

A. There is no limitation of how often or how high insurance companies can increase premiums, but, as indicated previously, these increases must be properly filed with the Division of Insurance. Although the Division does not “approve” or “disapprove” long-term care premium rate increases, it does review the rate filings very carefully.

The premium rate increase must be “actuarially justified” based on claims experience for an entire class of insured individuals. A “class” refers to a group of individuals with the same characteristics, such as age, geographic location, and similar coverage. This also means that no one policyholder can be singled out for a premium increase based on age or health.

For long-term care rate filings submitted to the Division of Insurance on or after January 1, 2008, the insurance carrier actuary must certify that rates were developed under “moderately adverse conditions.” In other words, the insurance company must use an appropriate margin of conservatism in establishing the premium rate it charges.

Q. What if I have more questions?

A. Please contact the Division of Insurance if you have additional questions.

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