Policyholders Options:
Reducing Long-Term Care Insurance Premium Increases

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HICAP Counselors: This is a summary of important topics to consider when HICAP counselors assist clients who have been notified of an increase in their long-term care insurance premiums. Understanding and choosing options that reduce a premium increase is about more than the cost of insurance benefits. It's also about the choices a policyholder makes and the current and future effect of those choices. In every situation the proximity to the use of long-term care insurance benefits is an overriding issue in choices to change the benefits of a long-term care insurance policy.

Premium Increase Notices: Policyholders of long-term care insurance policies may receive a formal notice from their insurance company when it will be imposing a premium increase and provide options to change policy benefits to offset some or all of a premium increase.

Most policyholders, or their families, are likely to need help determining the value and the impact of one or more of the offered options. Policyholders may be given 2 or 3 options to choose from while others may have 4 or 5 options to consider. One option may be a cash benefit or a paid up option with no further premiums required.. Each option that is offered should be carefully considered by each policyholder based on their specific needs, their age, gender, their marital status, their current health, the cost of care in their area, and their financial circumstances. It's also important to know that couples rarely need identical benefits and can choose to maintain different packages of benefits. A careful review of each option and its consequences should be explored for each individual.

When assisting a policyholder or a family member with decisions about reducing benefits to lower premiums it's important to consider future care needs, local costs of care, and whether additional premium increases are likely in the future. Some notices contain information about future premium increases while others don't. The amount of future premium increases must be filed with and approved by a state insurance department. The exact amount of future rate increases is an estimated cost and may later be less or more than the amount shown in the notice.

<u>For spouses:</u> it's important to consider the impact of these options if later one partner dies and the other partner will be living with a reduced income insufficient to maintain coverage. In other cases one partner may need to maintain more benefits than the other because one partner is older than the other or is in worse health than the other partner. It's important to remember that each partner may need different amounts of coverage depending on their age, health, and future risk of needing care.

<u>Gender Differences:</u> Statistically women live longer than men of the same age, and as a result are often widowed or living alone when they need care. Without a live-in-caregiver woman are often more likely to need professional care in an intuitional setting such as assisted living facility or nursing home. This statistical difference should be taken into consideration when discussing benefit reductions. Women typically need to retain greater benefits and a longer duration of coverage due to gender differences.

For Partnership products: Iit's important to know any state minimum Partnership benefit requirements to ensure that the daily benefit amount, the policy maximum benefit amount or years of coverage, and any inflation protection is not reduced below the levels required to maintain Partnership status and qualify for asset protection in that state. A notice may include a warning about reducing benefits or inflation protection below Partnership requirements, but if that warning is not included policyholders should check with the state Partnership program before making any changes to their coverage.

Waiver of Premiums: Before reducing benefits in trade for a lower premium it's important to know if premiums will be waived after care has begun and what benefits are covered by the waiver. A policyholder who is close to using the benefits of their policy may not want to trade those benefits for the short term cost of a premium increase.

Waiting Periods: In making choices to change the benefits in a long-term care insurance policy the number of days in a waiting period, and how an insurer counts those days, is an important factor. The days in a waiting period are the days a policyholder pays for their own care before their benefits begin.

Common Long-Term Care Insurance Benefit Options

Reduce Or Eliminate Inflation Protection: A policyholder is given the choice to reduce their inflation protection benefit, or to eliminate it entirely, in return for a reduction in the premium. (An inflation protection benefit increases annually the policy's daily benefit amount to protect against increases in the cost of care.) While it may make sense at some older ages to reduce or eliminate an inflation protection benefit, it's important to know **if** the daily benefit will revert to the daily benefit amount at the time the policy was purchased. If a policyholder opts to reduce the inflation protection benefit, they might lose all the inflation adjustments that increased their daily benefit since they bought the policy. The option to reduce or eliminate inflation protection should only be chosen when the daily benefit amount remains at the current inflated amount after any changes to that benefit..

Reduce The Daily Benefit Amount: A policyholder is offered the option to reduce the dollar amount of their daily benefit in return for some reduction in the new premium. Careful consideration must be given to the amount of the reduced daily benefit relative to the current cost of care. It's also important to consider that reducing the daily benefit might limit the ability to make any additional reductions in the future. For instance, a policyholder may not be able to offset future premium increases by reducing the daily benefit again if that benefit is already lower than the cost of care.

Cost Sharing: A policyholder may be given the option to add cost sharing to their daily benefit in return for a premium reduction. In this option for example, the policyholder might agree to pay ten percent (10%) of the cost of their care while the company would pay ninety percent (90%), The daily benefit amount would remain the upper limit for the shared payment percentages. This option might also be combined with agreement to use a network care provider at a discounted cost.

Reduce The Duration Of Benefits: A policyholder is offered the right to reduce the total dollar amount and the number of years that the policy will pay benefits. A policyholder with only 2 or 3 years of coverage may not be able to reduce the duration of their coverage any further. Reducing the benefit from lifetime coverage to a fixed number of years may substantially reduce the premium. Policyholders will need to weigh the consequences of fewer years of benefits and the total dollar amount of benefits against any reduction in premium that they are offered

Paid-Up Policy: A policyholder may be offered a paid-up policy with no need to make any future premium payments. This option keeps the policy in force, but often limits the total dollar amount of benefits to the amount of premiums that have already been paid since the policy was purchased, or to an amount stipulated in the notice. The amount of care that can be provided by the paid-up dollar amount should be weighed against the ability of a policyholder to maintain coverage and continue to pay the subsequent premium. A paid up policy means that only the total amount of benefits is changed. The benefits and contractual terms of the policy don’t change; if the benefits are used they will operate under the terms of the policy, up to the maximum amount of paid up benefits..

Cash Benefit: A policyholder may be offered a specific cash amount in return for surrendering the policy and giving up all of its benefits. Cash payments can be thousands of dollars and be very attractive to a policyholder who needs to think through giving up all of their coverage for long-term care. A policyholder should seek advice from a trusted financial advisor to ensure that they understand all of the ramifications of a cash benefit and any potential tax implications associated with choosing this option. Some notices may contain a warning about seeking tax advice while others may not. In addition, if a policyholder is currently eligible for public benefits, or might soon be eligible, the receipt of a large cash payment could affect eligibility for those public benefits.

Contacting The Insurance Company: Policyholders can always contact the insurance company to ask questions about any offered options, and to seek other changes that might be more beneficial. For instance a policyholder offered a lower premium to drop a 5% inflation protection benefit might be able to afford the premium for a 3% inflation benefit even though it might cost more than dropping the benefit completely. A policyholder with lifetime benefits might be able to afford a premium for 4 years of coverage instead of a 3 year benefit offered to reduce a premium increase.

It’s important to remember that any offers to reduce premium increases, or to make any other changes to a long-term care contracts should always be supported in writing. Any documents sent to policyholders should be retained and attached to their existing policy. And every policyholder should have a designated third party to be notified if premiums are late or not paid. A designated third party can be added to a policy at any time by contacting the company and making that addition.