Long-Term Care Insurance Future Questionable

The future of long-term care insurance is uncertain and the viability of the market is in question, according to a new report by Moody's Investors Service.

Limited claims experience, long policy horizons, rising premiums and extreme market consolidation are all contributing to the indefinite outlook, writes Laura Bazer, Moody's vice president and author of the report, "Long-Term Care Insurance: Sector Profile."

"Key credit considerations for the sector are the relative newness of long-term care insurance and the long-tailed and complex product structure, which make it difficult to price the product profitably and to reserve for," Bazer said.

Early policies offered too-generous benefits in light of what turned out to be higher utilization and lower rates of lapsed policies than actuaries had forecast. Lately insurers have been increasing reserves, which has resulted in losses for some over the past two years and may not fix the problem.

"While recent hefty reserve and rate increases could improve the profitability of legacy blocks, or at least stem losses," Bazer said, "persistent low interest rates and anti-selection could confound the remediation process."

The response of some insurers has been to retreat from long-term care business, while those that remain are raising rates and cutting benefits. But Bazer said potential buyers may resist these changes, and regulators may block or limit new rate increases on a constituency like senior citizens living on fixed incomes.

Moody's notes that there is now only one major player, Genworth, and it wrote 38 percent of the individual long-term care insurance premium in 2011. With fewer sellers, sales could fall, calling into question the viability of the entire market, according to Moody's.

For an *Insurance Journal* article on the report titled "Is Long-Term Care Insurance Dying?", click here.