Why The WSJ Is Wrong About Long-Term Care Planning

Jamie Hopkins , Contributor | Jan 22, 2018 @ 05:20 PM

A recent *Wall Street Journal* article, "Millions Bought Insurance to Cover Retirement Health Costs. Now They Face an Awful Choice," has been circulating on the internet but for all the wrong reasons. The *WSJ* piece essentially falls into the "bad news sells" category of reporting. While the article itself provides plenty of great statistics and touches on a very important topic, the article really misses the mark on two main points about long-term care insurance. Its "Woe is me!" theme actually pushes people away from doing quality long-term care planning. Instead of lamenting past missteps, the article could have emphasized some of the new techniques for building effective and sustainable solutions to the budding long-term care crisis.

Let's start with what the article gets wrong. Unfortunately, we have to start with the title of the article. The title misrepresents the issue, as it refers to insurance as a way to cover "health care costs," which is not the intended purpose of long-term care insurance. Long-term care insurance is not designed to cover health care costs. It is designed to cover custodial care, which is more accurately defined as needed assistance with basic daily functions like eating and dressing. Second, numerous references within the article itself reverberate with the same sorry theme: that long-term care insurance policy holders, when regularly socked with steep premium increases, are faced with a sobering choice — to either pay the higher price or drop the policy altogether. This is just flat out wrong. In fact, most long-term care insurance policies can be modified to alter benefits or riders to keep costs down. For instance, you can reduce the inflation rider or shorten the benefit period to keep benefits in place but reduce premium costs. So, dropping the policy or paying the higher premiums are not the only options available to the policy holder.

The article also hits a sour note because it actually discourages long-term care planning. The article ends with a recommendation against the purchase of any long-term care insurance. Instead, the article could have seized an opportunity to explain how the financial planning world has evolved to better provide long-term care protections, and has developed the numerous planning options available today.

The *WSJ* article does illustrate the emotional and financial impact that results when insurance companies routinely hike up long-term care insurance premiums. This is a really important point as real people are impacted. The reality is that insurance companies did a poor job of pricing their long-term care insurance policies. But this isn't breaking news, as the premium increases and faulty insurance calculations have been around for years now. The miscalculations essentially came from two areas. First, far more people kept their policies in place than the insurance companies expected. This means that insurance companies are paying out more benefits than they had anticipated. Second, almost no one saw or predicted a decade of a low interest rate environment. The premium increases are almost entirely driven by these two miscalculations. Long-term care insurance premium hikes are a clear by-product and casualty of low interest rates over a prolonged period of time.

The reality is that no one likes paying ever-increasing premiums for their insurance. This is harmful and disruptive to current long-term care insurance policy holders. However, the reality is that the premiums are increasing because the policy was actually too good of a deal in the first place, considering the price that people paid in. If your premiums increased, you didn't make a bad decision about getting long-term care insurance; you actually made a good decision because you got an important protection at a bargain price. That being said, you still need to be able to continue to afford the insurance in the future.

If you are someone who has been impacted by spiraling premium increases, you are not helpless, and you do have more options than the *WSJ* article suggests. In fact, there are things you can do to reduce your premiums according to Bill Borton, Managing Principal of W.R. Borton Associates. Traditional long-term care insurance policies can be modified. You can reduce inflation riders or adjust other features to control premium costs. Mr. Borton still suggests that if you have a policy that experienced rate increases, you should continue to keep the policy in effect if you can afford it. Many of these existing long-term care insurance policies that were sold years ago have more generous benefits than anything that can be purchased today.

It is also important to take note that creating a long-term care funding solution is not just limited to purchasing long-term care insurance. When planning for long-term care costs, you essentially have three options. Self-fund it, purchase insurance, or rely on Medicaid. Most people do not want to rely on Medicaid because it requires you to spend down your assets first, thus relinquishing control of your care. However, for many, reliance on Medicaid to fund long-term care expenses is their reality, as they cannot afford to self-fund or purchase insurance.

While some people decide to self-insure and pay for their costs out of their retirement savings as they go, insurance products still remain a viable funding option. Today, more products exist than just traditional long-term care insurance. Hybrid-products have been developed to mitigate some of the risks associated with traditional polices, like those unwelcome and unexpected premium hikes. Hybrid policies essentially come in a few different forms, but are typically long-term care benefits attached to a life insurance or annuity product. These hybrid approaches allow for level and one-time premium payments, eliminating the possibility of premium hikes completely. Furthermore, these policies can remove the "use it or lose it" aspect of traditional policies. With a hybrid long-term care and life insurance policy, if you don't end up needing long-term care benefits, your heirs can still receive the death benefit. This allows people to buy one product that provides two potential benefits, a tool for funding long-term care expenses if needed and life insurance coverage. (Check out this article on long-term care planning.)

Long-term care costs can run well over $100,000 a year so having the appropriate funding vehicle is crucial. While there have been issues with existing policies, it is not the right response to stop considering long-term care insurance or hybrid product funding solutions. In fact, the opposite is true. It is more important than ever before to look into purchasing a long-term care funding vehicle. In reality, there are more options than ever with the growth of hybrid products to supplement the traditional long-term care insurance marketplace. So, I implore you to explore the options available for

long-term care funding. If you have a current policy, investigate ways to mitigate costs. For those considering purchasing a policy, make sure to look at hybrids too. But, above all else, do not run away from long-term care planning because of negative news articles. That approach will not improve your future financial security at all, and you may very well end up being the one saying, “Woe is me.”