

Unless You're in Poor Health....AVOID Group Long-Term Care Insurance

By Allen Hamm

The LTC insurance industry is up to a new trick: Marketing LTC insurance through groups. The industry “advertises” that group LTC insurance is a better value than individual coverage. We’ll explain later in the article why this is simply **NOT** true.

Group LTC coverage is becoming a common option in the workplace. The employee usually pays the entire premium, but the insurance company trains the employer to “sell” the concept to their employees as a value-added benefit to being employed by the company. This is also **NOT** true.

Group coverage can also be purchased through associations such as AARP, or through “captive” agents who work for only one insurance company. In fact, a new twist in coverage offered through AARP, is using “captive” Genworth agents. These captive agents work directly for this one insurance company - they are not independent brokers. They’re taught how to sell this one insurance carrier’s insurance, with the commission being split between the captive agent and AARP. Group coverage can also be purchased on the internet, through the mail, or over the phone. Is this new trick - Group LTC Insurance - a good value? The short answer is: No, unless you’re in poor health.

Adverse Selection

Individually issued LTC coverage offers a better value than group LTC coverage. Why? Unlike most types of group coverage, group LTC insurance is usually **MORE** expensive than individually issued coverage. This is because group LTC insurance is normally issued to individuals who would not otherwise pass the typical underwriting requirements of the insurance carrier. This is called “Adverse Selection” and the result is a much higher than average number of claims. Because insurance companies know they’ll have a greater number of claims with group LTC insurance, they charge a higher premium.

In future years, adverse selection will also cause premium rates to be raised more frequently than premiums for individually issued policies. In fact, rates on older group policies, such as coverage issued through CalPers, are already being raised to the point where some families are canceling the coverage. The consequences of adverse selection spell bad news for healthy people who purchase group coverage: They subsidize the current premiums as well as the more frequent premium increases caused by the claims of those in poor health.

“But the Premium Seems so Low!”

Group LTC coverage can *appear* to have a much lower premium than individually issued coverage. **Buyer beware!** Read the coverage details. Understand the eligibility criteria. Compare these details and the benefits apples to apples with coverage that could be available on an individual basis.

For example, most group coverage does **NOT** offer the automatic inflation protection benefit as part of the base policy. Instead, what’s offered is an “Increase Option”, which offers the right to purchase additional coverage in the future, at of course, a much higher premium rate. This option has the *appearance* of inflation protection, but on closer examination, you’ll see that the coverage does not include automatic inflation protection!

Unfortunately, the “*appearance*” of a lower premium with group coverage has given thousands of policyholders the illusion of security — the belief that they’ve properly planned ahead for long-term care. These policyholders will end up with no meaningful long-term care insurance in force when they’re likely to need it the most. They’ll either be forced to drop the coverage because of increasingly higher premiums; or, if they keep the coverage in force, will learn that the benefits they purchased are inadequate.

Is Group LTC Coverage Ever a Good Value?

There is one situation where group coverage is worth considering. If you are unable to qualify for individually issued coverage due to health problems, you may want to consider any group coverage available to you. In this situation, work with your financial advisor and an LTC Planning and Insurance expert they recommend to weigh the pros and cons of the coverage, and to assist you with evaluating your options.

Pros and Cons

Purchasing group LTC insurance without first understanding all the pros and cons of the decision is one of the worst financial planning mistakes being made today. One of the reasons for considering LTC coverage at a younger age is to have a reasonable premium later in life. But this will not be the case with group LTC insurance: Premiums are higher from the beginning and will be continuously higher in the future.

Group coverage has the potential for creating false security and may cause people to “start over” with the LTC Planning process at older ages. Unfortunately, at that stage in their lives they may no longer be able to qualify or afford the premiums for the coverage they need. See the accompanying chart for a summary of the advantages and disadvantages of group LTC insurance. If you are offered group coverage, speak with your financial professional before you sign the paperwork.

GROUP LTC INSURANCE	
ADVANTAGES	DISADVANTAGES
<p><i>For those in poor health</i></p> <ul style="list-style-type: none">• Guaranteed/Modified Issue coverage may allow people in poor health to obtain long-term care insurance when they would otherwise not qualify for an individually issued policy	<p><i>For those in good health</i></p> <ul style="list-style-type: none">• Adverse Selection allows those in poor health to obtain coverage, resulting in higher initial premiums for those in good health. This also raises the risk of increasingly higher premium rates in the future• Long-term care insurance sold with the single sales approach. Coverage is not normally integrated with your personal and financial objectives• Limited to the coverage options offered by the one insurance company offering the coverage. This eliminates the opportunity to compare coverage and premium rates among various carriers• No unbiased assistance at time of claims