Long-Term Care insurance Giant Raises Premiums on Existing Customers for First Time

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It's no secret that long-term care insurance companies can and often do raise premiums on policyholders. Still, a few companies have been able to truthfully say "we've never had a rate increase."

Now, one of the biggest players in the industry, Genworth Financial, can no longer claim that. For the first time, Genworth has said it will raise premiums for existing policyholders. The company has filed in all 50 states for premium increases of 8 percent to 12 percent on most of the policies it sold before 1997.

According to the Dow Jones Newswires, Genworth's move has raised fears that the long-term care insurance industry may return to the dark days when many insurers raised premiums rapidly, and some sold off policies and exited the business altogether.

Pressure on insurers to keep premiums low and level has made the products unrealistically cheap, Cynthia Zalewsky, founder of Saratoga Investment Solutions, told Dow Jones.

"Clients might not think they're cheap," Zalewsky said, "but they're cheap."

The principal reason for Genworth's rate rise is that its actuaries overestimated the percentage of policyholders who would let their policies lapse -- that is, stop paying for coverage, forfeiting all premiums paid to that point.

Genworth's actuaries were counting on 5.5 percent of all consumers who bought policies before 1997 at some point voluntarily ceasing coverage. In fact, only 1.5 percent have dropped their coverage before claiming benefits.

According to Dow Jones, "financial advisors who know the products well are almost unanimous in predicting that more [insurer rate] increases lie ahead."

"I don't think we've seen the end of the repricing trend," said Michael Hennessy, director of insurance products for global wealth management at Citigroup Inc.'s Smith Barney.