
Hillary, Obama, and Long-Term Care

By Buz Livingston, CFP
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Leading up to the first debate for the Democratic nomination, front-runners Barack Obama and Hillary Clinton found some common ground. They joined together to request that the Government Accountability Office conduct a study on the long-term care (LTC) industry. But let's not be too naive. If you're digging for votes, there's no better tactic than bashing the insurance industry.

A big moneymaker

Long-term care insurance, which you can find from insurance companies like Genworth Financial (NYSE: GNW), MetLife (NYSE: MET), and plenty of others, is a highly profitable product. Agents pull out all the stops to close sales, as these "supercharged" sales videos show. According to Karen Ignagni of America's Health Insurance Plans, consumers paid an estimated \$8 billion in premiums in 2007 vs. \$3.3 billion in claims paid. She has "high satisfaction" with the current LTC insurance scenario.

Small wonder not everyone shares her enthusiasm. Frank Darras, whose law firm Shernoff, Bidart and Darras LLP reviews over 1,000 disability and LTC cases each month, claims that many policies are "poorly underwritten, with too many bells and whistles." According to Darras, many LTC policies are "underpriced" and "oversold." Consequently, many LTC insurers attempt to deny claims. According to some media reports, as many as 25% of all claims are being rejected.

Many carriers have stopped new sales, so they now have little incentive to serve clients fairly. Still other companies, who may have "low-balled" their premiums, have petitioned states for exorbitant premium increases.

Protect yourself

Funding long-term care -- by insurance or savings -- is critical to the success of a retirement plan. Unlike the stock and bond markets, LTC insurance is generally not subject to federal regulation. With the rush of baby boomers who will need long-term care, it's time for that to change.

Currently, only 24 states have adopted model consumer protection laws based on the National Association of Insurance Commissioners guidelines. Perhaps instead of grandstanding with the GAO, Senators Obama and Clinton would better serve the country if they urged federal guidelines for LTC policies.

We can only hope somebody will.

Fool contributor Buz Livingston, CFP, includes a discussion of long-term care with every financial planning client. He appreciates your feedback and believes most people will benefit from professional advice.