

Insurance

Conducting Due Diligence on an LTCI Carrier

When considering any health insurance product for a client, evaluating prospective carriers is an important part of the decision-making process. It could be years before one utilizes benefits from a life, disability, or long-term care (LTC) insurance policy. Yet, as recent months have proven, a company's financial health can change quickly.

How can you feel confident that an insurance carrier will be able to meet future obligations? By researching information about the carrier's past and present, you can determine its ability to weather future storms. When reviewing LTC insurance carriers, here are specific points to consider.

Ratings

Compared to life and disability products, LTC insurance does not have an extensive marketplace history. However, many of the top carriers that offer LTC insurance have been around for a while. By consulting various rating services, you can gauge a carrier's ability to meet its policyholder obligations, ability to pay claims, and adherence to Generally Accepted Accounting Principles (see chart). Rule of thumb: If a carrier does not fall into

any of the rating services' "A" categories, be wary.

History

Carriers have been writing LTC policies for about 30 years. That is long enough to base a reasonable assessment by asking questions such as these:

- Does the carrier offer competitive benefits at a fair premium, or is its pricing too aggressive?
- Has the carrier ever raised premiums on in-force policies? If so, how often and how much?
- Does the carrier have a track record of fair claims practices?
- Is the carrier committed to the market, or does it exhibit a history of exiting and reentering?

Focus on carriers with a minimum of 10 to 15 years of LTC-specific experience, and you will be able to better assess the carrier's long-term commitment to the industry and its policyholders.

Volume

Insurance is about spreading risk. Smaller pools of policyholders pose greater risks to carriers. The LTC underwriting

business is very top-heavy because a small number of carriers write a large percentage of the business. In 2006, the top five carriers (in terms of number of covered lives) collectively represented 48.56 percent of market share, according to the American Association for Long-Term Care Insurance *2008 Sourcebook*.

Underwriting

When a carrier accepts applicants with greater health risks, chances are it will pay higher claims. If the coverage is not priced appropriately, that can translate to an increased likelihood of large or more-frequent premium increases later.

Many carriers offer only two rating classes for applicants: preferred and non-preferred. Carriers that also offer substandard rating classes and charge accordingly can manage risk better than those that do not.

Regulation

One final note. Given the volatility we saw in 2008, it is important to remember that all health insurance carriers must be licensed in every state in which they do business. The states regulate carriers and monitor their financial stability. If a carrier is found to be financially unstable and the state cannot assist in its recovery, then the state's life and health insurance guaranty association can be utilized. Acting like a safety net, the guaranty association will provide continuing coverage and benefits (within limits) to the failed carrier's policyholders living in their state. To learn more about a particular state's guaranty association, visit www.nolhga.com. **NA**

Carrier Ratings At-a-Glance

CARRIER	A.M. BEST	FITCH	STANDARD & POOR'S	MOODY'S
John Hancock	A++	AA+	AAA	Aa1
MassMutual	A++	AAA	AAA	Aa1
Metropolitan Life	A+	AA	AA	Aa2
New York Life	A++	AAA	AAA	Aaa
Northwestern Mutual	A++	AAA	AAA	Aaa

Source: Ratings obtained from each carrier's Website on Jan. 8, 2009.

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