CALIFORNIA HEALTH ADVOCATES
Medicare: Policy, Advocacy and Education

Fact Sheet for Advocates

Liquidation Options to Reduce Premium Increases

August 15, 2017

As you know, Penn Treaty Network America Insurance Company **(**PTNA) went into liquidation on March 1, 2017. As a result the Guaranty Associations in each state became responsible for the policyholders living in their state on March 1, even if they did not buy the policy in that state. Policyholders must continue to pay premiums to keep their coverage in effect, and they can continue to file claims just as they have been doing. Guaranty Associations will notify policyholders of any changes to either of these procedures.

State law limits Guaranty Association coverage. In most states, the benefit limit is $300,000 for long-term care insurance. The most that can usually be paid in claims is the maximum a policy will pay in benefits or the state Guaranty Association limit, whichever is lower.

It is likely that Guaranty Associations will request premium increases in most if not all states. The notices policyholders receive about the premium increase may contain a number of options they can exercise to offset some or all of the premium increase. Each option needs to be carefully considered by each policyholder based on their specific needs, their age, the cost of care in their area, and their financial circumstances. Most policyholders, or their families, are likely to need help to determine the value and the impact of one or more of the offered options. They will need to make decisions with the state's Guaranty Association benefit limit in mind. For example, if the Guaranty Association benefit limit is $300,000, it would not be worthwhile to pay an increased premium to maintain a benefit limit greater than that.

Listed below are some of the options that may be offered by a Guaranty Association, and some information to consider that may help people understand how an option might impact their benefits or their later need for care. In some cases a policyholder may be able to combine two or more options to achieve a more desirable premium reduction.

Cash Out: A policyholder is offered a specific dollar amount to cancel their policy. Some of these cash outs may be many thousands of dollars. While the prospect of a large cash payment may be momentarily attractive, the policyholder is giving up all future benefits for long-term care, and might owe income taxes on a large cash payment. If a person is eligible for public benefits now, or might be in the future, the receipt of a large cash payment could affect eligibility for those benefits. A policyholder should seek advice from a trusted financial advisor to fully understand all of the consequences of this decision before exercising this option.

Reduce Or Eliminate Their Inflation Protection: A policyholder is offered the option to reduce their inflation protection benefit, or the option to eliminate it entirely, in return for a reduction in the new premium. (An inflation protection benefit increases the policy's daily benefit amount to protect against increases in the cost of care.) While it may make sense at some older ages to reduce or eliminate an inflation protection benefit, it's important to know **if** that reduction or elimination will be applied back to the original daily benefit at the time the policy was purchased. If this is true and a policyholder opts to eliminate the inflation protection benefit, they would lose all the inflation adjustments the increases in their daily benefit since they bought the policy. The option to reduce or eliminate inflation protection will be more attractive, especially for younger policyholders, if elimination or reduction in inflation protection would be applied only from the current date forward.

Reduce The Daily Benefit Amount: A policyholder is offered the option to reduce the dollar amount of their daily benefit in return for some reduction in the new premium. Careful consideration must be given to the amount of the reduced daily benefit relative to the current cost of care and how much choosing that option would reduce the new premium. It's also important to consider that if they choose to reduce the daily benefit now and there are premium increases in the future, they may not be able to offset those premium increases by reducing the daily benefit again if the daily benefit is already much lower than the cost of care.

Reduce The Duration Of Benefits: A policyholder is offered the right to reduce the number of years that the policy will pay benefits. A policyholder with only 2 or 3 years of coverage may not be able to reduce their coverage any further. Reducing the benefit from lifetime coverage to a fixed number of years may substantially reduce the premium for younger policyholders but the reduction may be much less for those who are older. Policyholders will need to weigh the consequences of fewer years of benefits and the total dollar amount of benefits against any reduction in premium that they are offered. A policyholder may not want to retain total benefits that are more than the amount they could collect under the state's Guaranty Association benefit limit.

Eliminate or Change Certain Features of The Policy: A policyholder may be offered the right to change the places where they can receive care or the services a policy currently covers. Careful consideration must be given to each specific change that is offered based on the policyholder's future needs and their ability to pay for any care that will no longer be covered by their policy. A policyholder should carefully weigh the value of any changes offered against the amount of any premium reduction.

Paid-Up Policy: A policyholder may be offered a paid-up policy with no need to make any future premium payments. This option keeps the policy in force, but limits the total amount of benefits that will be paid to the amount of premiums that have been paid since the policy was purchased. The amount of care that can be provided by the dollar amount of paid premiums and the state's Guaranty Association limit should be weighed against the ability of a policyholder to pay the increased premium.

> ***These are the most common offers that often accompany a premium increase notice for long-term care insurance, but this is not a complete list of every option that a policyholder might be offered.***

When assisting a policyholder or a family member with decisions about reducing premiums, it's important to consider their age, financial situation, their future care needs, and the costs of care they may need in the future. For spouses it's important to consider the impact of these options and changes if one spouse will live on a reduced income when the other spouse dies. It's possible that a policyholder might combine two or more of the options offered to them to achieve the greatest premium reduction, but a careful review of each option and its consequences should be made first.

Long-term care insurance policies are guaranteed renewable; they can't be canceled unless the policyholder fails to pay the premium. Policyholders with questions about their PTNA premiums or their claims can contact the PTNA call center for that information **(*1-800*-362-0700)** even after a state Guaranty Association becomes responsible for PTNA policies.

If there are questions about this summary, SHIP directors or other assisters can email me those questions at: Bonnie Burns at bburns@cahealthadvocates.org