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## *Low Rates Are Tormenting Insurers—and Their Customers; Long-term-care policies are among hardest-hit*

By Leslie Scism

**Life-insurance companies are scouring their policies to identify ways to raise rates and fees and lower the amount of interest they have to pay on savings products as low interest rates cut into their profits.**

The bottom line for policyholders is they have to pay up or relinquish benefits.

The main culprit: the Federal Reserve's seven-year-old campaign to boost the economy. Life insurers earn much of their profit by investing customers' premiums in bonds until claims come due. They have typically favored high-quality, long-term corporate bonds to meet regulatory requirements to back their obligations with safe investments. As the Fed began driving down rates in 2008 to rescue the economy from a global meltdown, the yield on corporate bonds has tumbled.

While the Fed provided a glimmer of hope for life insurers when it raised rates in December, the benchmark yield important to insurers is now lower than it was back then, and the central bank said Wednesday it likely won't raise interest rates as swiftly as it had previously anticipated.

"We've been conducting a prolonged experiment in monetary stimulus, and the impact on savers is one of the great unintended consequences," said MetLife Inc. Chief Executive Steven Kandarian.

Life insurers' stock prices have suffered. Shares of 10 of the most prominent U.S. life insurers have lost 12% since 2008, wiping out nearly \$30 billion in market value in a period when the broader market gained 40%, according to FactSet.

Blossom Blumberg, a retired New York schoolteacher, in the late

1990s purchased a long-term-care policy, a product designed to cover the cost of nursing homes, assisted-living facilities and home health care when people can't take care of themselves anymore. Then last fall the 84-year-old received a letter from the insurer, Genworth Financial Inc., informing her it was raising the cost of the policy by 60% to more than \$6,000 a year.

"Nobody ever explained that the premium was dependent on how much money they made from interest rates," Ms. Blumberg said, adding: "It probably was in small print somewhere."

The Florida retiree said she couldn't afford the rate increase so she accepted an offer from Genworth to reduce the policy's future payout in exchange for maintaining the premium at about \$4,000.

Insurers such as Genworth say all moves involving higher costs to existing policyholders are within contractual terms and that with long-term-care policies, regulators must approve rate increases. Genworth said it doesn't discuss specific policyholders.

Estimates of the number of customers hit with higher costs aren't available, but insurers' public statements and regulatory filings indicate rate increases and other maneuvers will cost consumers billions of dollars over time.

Long-term-care insurance is one of the products hardest hit by low interest rates, because insurers bank on investing customers' premiums for 20-plus years before claims come due. Eight million Americans own the policies, and many face annual bills that are 50% higher than before the financial crisis, according to regulatory filings and interviews with financial advisers.

Those policyholders aren't the only ones hit with higher costs as

insurers pass on their pain. Many owners of "universal-life" insurance, a complicated type of coverage combining a tax-advantaged savings account with a death benefit, face unexpected bills of tens of thousands of dollars. That is because insurers credited less interest to the policies' savings accounts as interest rates fell. Many buyers intended to use built-up interest to help pay the policies' annual insurance charges as they got older.

Often in their 80s, these policyholders are struggling "to maintain their coverage just as they're ready to utilize it," said Henry Montag, a principal with TOLI Center East in Huntington Station, N.Y., which advises trusts on insurance issues. They are "in such an awkward powerless position where there are no good outcomes."

At Genworth, long a leader in sales of long-term-care policies, shares are down nearly 90% since before the crisis.

Genworth tallies its losses on long-term-care policies, many dating to the 1970s, at more than \$2 billion. "We're trying to get these large premium increases...to get these policies just back to a break-even going forward," said Thomas McInerney, the company's CEO. "We're never going to recover what we've lost."

Mr. McInerney said Genworth priced many older policies on the assumption the company would earn 7.5% a year on invested premiums. But new premiums are being invested today at about 4%.

For customers with some of the oldest, most benefit-rich policies, cumulative increases are likely to be 100% to 150%, Mr. McInerney said. He said he speaks to about 50 upset customers a year and tells them: "I get it...It's awful" that they must pay more, but they still have "a fantastic deal even with the increase," given policies sold today aren't as generous as the