

## Miscalculated Risk: The Old-Age Bill That's Crushing Genworth

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By Zachary Tracer

(Bloomberg) -- Here's an uncomfortable question: who's going to pay for mom or dad's nursing home bill -- or yours, for that matter?

The answer, for about 1.2 million Americans, is Tom McInerney. McInerney, 58, is the chief executive officer of Genworth Financial Inc., the beleaguered giant of long-term care insurance.

McInerney is in a tight spot, and it's getting tighter. Long-term care policies written in past decades have turned into a black hole for the insurance industry. Executives misjudged everything from how much elder care would cost to how long people would live. Result: these policies are costing insurers billions.

Genworth is struggling to contain the damage and on Monday warned of a "material weakness" in some of its accounting. To cope with mounting costs on the policies, Genworth has been raising premiums again and again. Some policyholders are furious.

"I was mad as hell," says Arthur Mueller, an 83-year-old former real estate executive who lives in Dallas. Over the past 15 years, his annual Genworth premium has roughly doubled to \$6,879.

There's no quick or easy fix for Richmond, Virginia-based Genworth, which has posted two straight quarterly losses. The stock fell by more than half in the past 12 months, including a 5.4 percent slide Monday after disclosing the accounting weakness.

Genworth and other insurers have had to contend with the confluence of three powerful forces. The first is the rising price of elder care. Nationwide, the median cost of a private room in a nursing home is now more than \$87,000 a year, after annual increases of 4 percent over the past five years, according to Genworth.

### Bond Yields

Adding to the problems, interest rates have plunged to record-low levels. Insurers need to invest funds for decades before paying out on long-term care claims, so low rates hit profits from those policies particularly hard.

The third challenge boils down to demographics: America is graying. Nearly a quarter of Americans were born between 1946 and 1964, the typical definition of the baby boom generation. That's more than 75 million people. By 2050, when the youngest boomers will be in their 80s, long-term elder care will devour about 3 percent of the U.S. economy, up from 1.3 percent in 2010, the Congressional Budget Office projects.

Given that, you might think more people would be opting for long-term care insurance, which typically covers nursing home costs and home health aides. But just the opposite is happening. Sales are falling, and big insurers like MetLife Inc. and Prudential Financial Inc. have stopped writing new policies.

### **Market Failure**

“What’s happened over the last five, six years is an example, frankly, of market failure,” said Howard Bedlin, vice president for public policy and advocacy at the National Council on Aging. “There was a slew of pretty significant premium increases.”

Still, Genworth executives like McInerney, who joined in 2013, have said they’ll get it right eventually.

“While the product and the market has had its challenges, somebody is going to figure this out,” said Chris Conklin, a senior vice president at Genworth. “We’re sure going to try hard to have us be the ones that do it.”

But time is short. And it’s unclear if anyone can figure out long-term care insurance, at least in its current form. A.M. Best says that long-term care policies are among the riskiest products that life and health insurers offer. Standard & Poor’s and Moody’s Investors Service both downgraded Genworth’s debt ratings to junk in recent months, citing the pressure from long-term care policies.

### **Family Assistance**

Genworth says that even with higher premiums, its old products are a good deal for customers. Despite his higher costs, Mueller says he’s sticking with his policy, given his age, the amount he’s already spent in premiums, and what nursing-home care could end up costing. His main concern, he said, is whether Genworth will still be strong enough to pay for a nursing home if he ever needs one.

Fact is, long-term care insurance might make little sense for many people. More than half of all elder care tends to be provided informally by family members. Government programs cover much of the rest.

Such insurance works best for people who want more costly care than is covered by Medicaid, according to Jeff Brown, a professor at the University of Illinois.

Karen Marshall said she’s learned how costly care can be without the insurance. She took leave from a high-paying job as an attorney at Dewey & LeBoeuf when she was in her 30s to take care of her mother in her final months of battling cancer. Soon after her mother died, Marshall’s father’s health deteriorated, and she left the firm.

## 'Daunting Problem'

Marshall, 40, was spending her weekends driving back and forth from Washington to the home where she grew up in southern Virginia. Working as a corporate lawyer wasn't an option.

"I just kind of felt like I had my back against the wall," she said. "I spent so much time worried about dropping the ball for someone, whether it be my dad or work."

Her father is now in an assisted-living facility that costs more than \$2,500 a month, and Marshall says he'll eventually have to move to a nursing home that would cost twice as much. Marshall, who takes on legal work to pay the bills, and started a nonprofit to aid other caregivers like herself, has been helping cover the costs. She says her dad will eventually end up on Medicaid.

Policy makers have been trying to figure out how to cope with the nation's elder-care bill but so far have come up with few answers. A plan for long-term care insurance tied to the Affordable Care Act was scrapped by the government.

Genworth says insurance is just part of the solution to paying for long-term care. The company is exploring new products that could have more limited benefits and cost less, and ideas like government partnerships.

"It's a daunting problem for the whole country, really," Genworth's Conklin said. "We at Genworth have really committed to try to come up with better solutions for people."

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