



WHAT HAPPENS WHEN LONG-TERM CARE COSTS RISE?

A Comparison of Care Costs and Benefit Amounts

Protecting your benefits against inflation is one of the most important features you can have in a long-term care policy. You may hesitate to purchase inflation protection since it adds significantly to a policy's cost. Yet without it, years from now you may find yourself needing long-term care, and owning a policy the benefits of which have not kept pace with the increasing cost of services.

All policies approved by the California Partnership for Long-Term Care have a built-in inflation protection benefit.

If a 55 year old purchases a policy in the year 2005 that provides \$180 worth of daily benefits, the policy's benefits will cover a full days worth of care in a nursing home at the time of purchase.² As shown in **Chart 1**, care that costs \$180 per day in the year 2005 is likely to cost \$525 per day in twenty years. Without inflation protection, the \$180 per day policy purchased today will still only pay \$180 when the policyholder reaches age 75. That benefit amount will cover just over a third of the projected cost of care. The \$345 difference between the value of the policy and the projected cost of care would have to be paid by the policyholder.

Experts estimate the cost of long-term care will continue to increase by at least 5% annually. **Chart 1** below compares the anticipated cost for nursing home care over the next twenty years against a long-term care policy that does not include an inflation protection feature which increases the value of the benefits as time goes by.¹

2005

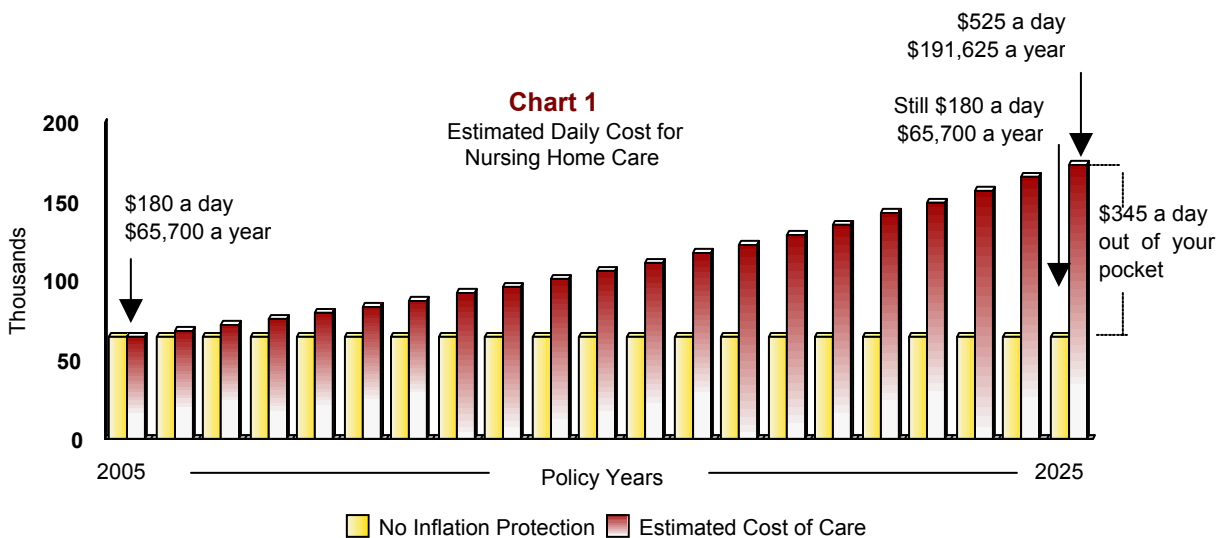
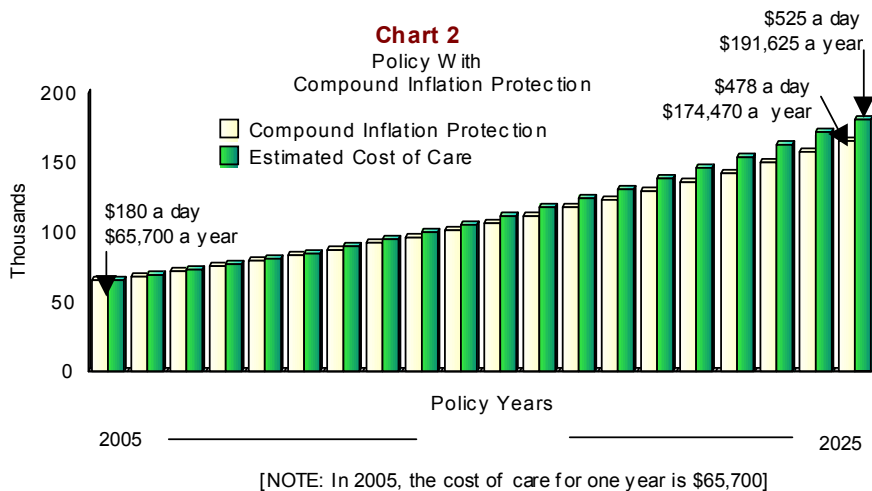


Chart 2 compares the anticipated increase in the cost for one day of nursing home care over the next twenty years with a long-term care policy that has a 5% compounded annual inflation protection benefit. The benefits of a policy that pays \$180 in the year 2005 will grow by 5% each year. In twenty years, the policy will provide \$478 in daily benefits. The actual cost for the care may be more or less than this projection, but **Chart 2** shows that a policy with inflation protection does much better at keeping up with the expected cost of care.

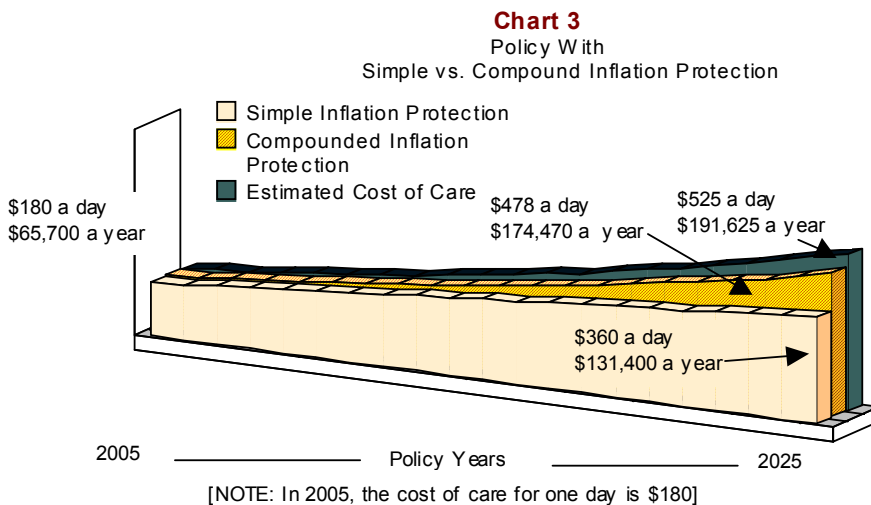


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There are two types of inflation protection, Simple or Compounded:

Compounded: the policy daily benefits will grow by 5% compounded each year as described above. For example, an initial daily benefit of \$180 will be worth \$478 twenty years later. **Simple:** the policy daily benefits will grow by a fixed dollar amount each year. The amount of increase is equal to 5% of the policy’s original daily benefit amount. For example, an initial benefit of \$180 per day will be worth \$360 twenty years later.

Chart 3 below compares how well these two types of inflation protection keep up with the expected future increases in the cost of one day and one year of nursing home care.



You should know that, if you are younger than 70 years of age, you automatically have 5% yearly compounded inflation protection. If you are 70 years or older, you have a choice between the two types of inflation protection.

¹ No one can precisely predict future increases in the cost of care. This graph is based on an expected 5.5% annual increase in nursing home private rates.

² This estimate of the cost for one day of nursing home care is based on the California statewide average daily nursing home rate. Actual rates vary in different regions of the state.