



CALIFORNIA PARTNERSHIP FOR LONG-TERM CARE

What Happens When Long-Term Care Costs Rise?

A Comparison of 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.

The California Partnership for Long-Term Care estimates the cost of long-term care will continue to increase by at least 4.8% 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

If a 55 year old purchases a policy in the year 2019 that provides \$320 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 \$320 per day in the year 2019 is likely to cost \$817 per day in twenty years. Without inflation protection, the \$320 per day policy purchased today will still only pay \$320 when the policyholder reaches age 75. That benefit amount will cover just over a third of the projected cost of care. The \$497 difference between the value of the policy and the projected cost of care would have to be paid by the policyholder.

Chart 1
Estimated Daily Cost for
Nursing Home Care

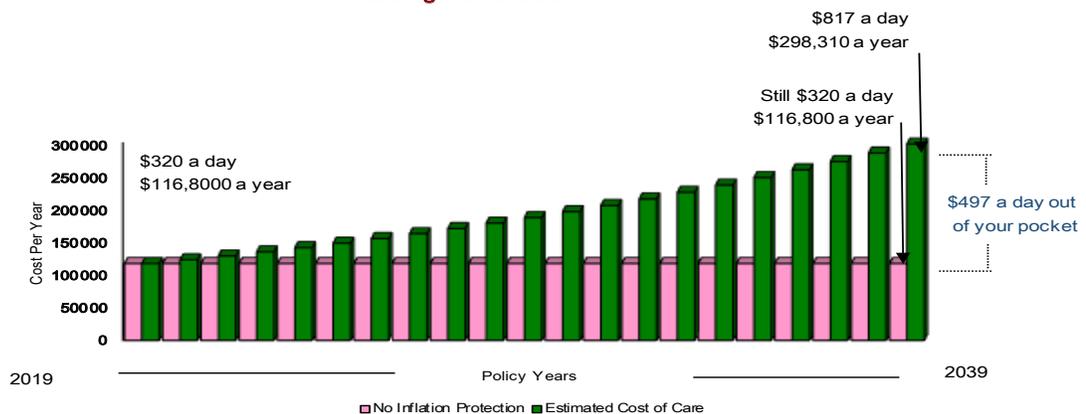
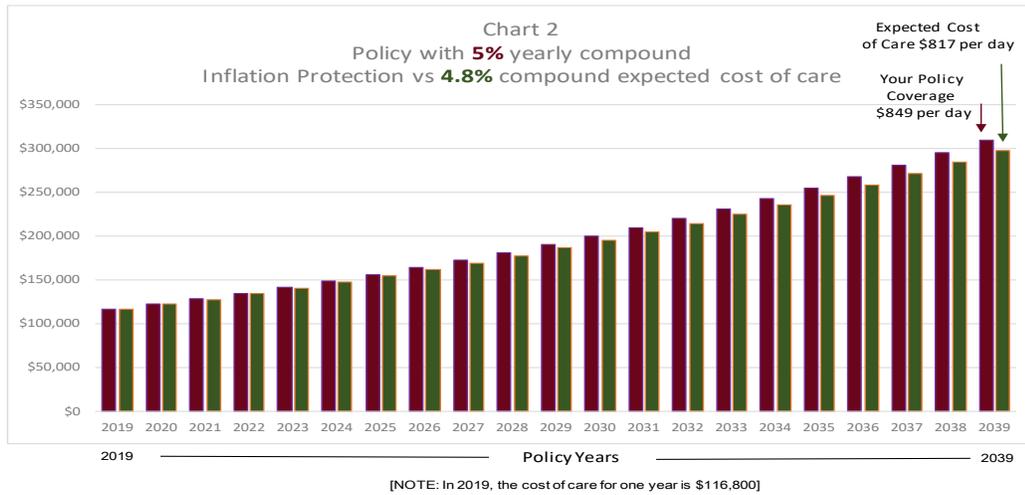


Chart 2 compares the anticipated increase in the cost for one day of nursing home care over the next twenty years with a long-term care policy that has a 5% compound annual inflation protection benefit. The benefits of a policy that pays \$320 in the year 2019 will grow by 5% each year. In twenty years, the policy will provide \$849 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 5% compound inflation protection does better at keeping up with the expected cost of care.

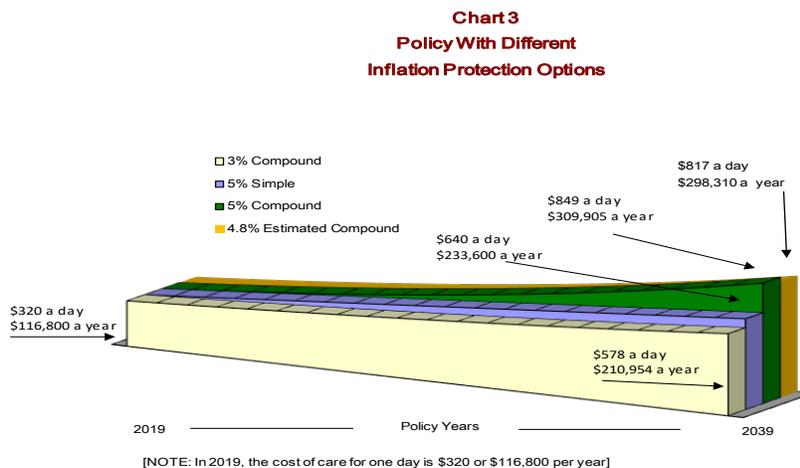


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There are three available inflation protection options; 5% Compound, 5% Simple and 3% Compound

5% Compound increases: The policy daily benefits will grow by 5% compound each year as described above. For example, an initial daily benefit of \$320 will be worth \$849 twenty years later. **5% Simple increases:** 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 \$320 per day will be worth \$640 twenty years later. **3% Compound increases:** The policy daily benefit will grow by 3% compound each year. For example, an initial daily benefit of \$320 will be worth \$577 twenty years later. Depending on the inflation protection percentage you select, **the differences between your policy benefit and the actual cost of care at the time, will be an out of pocket cost to you.**

Chart 3 below compares how well these three 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 may select 5% or 3% yearly compound inflation protection.

If you are 70 years or older, you have a choice of 5% compound, 5% simple or 3% compound inflation protection.

¹ No one can precisely predict future increases in the cost of care. This graph is based on an expected 4.8% annual increase in nursing home private pay 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.