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.

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.

If a 55 year old purchases a policy in the year 2011 that provides $250 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. As shown in Chart 1, care that costs $250 per day in the year 2011 is likely to cost $729 per day in twenty years. Without inflation protection, the $250 per day policy purchased today will still only pay $250 when the policyholder reaches age 75. That benefit amount will cover just over a third of the projected cost of care. The $479 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

[NOTE: In 2011, the cost of care for one year is $91,250]
**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 $250 in the year 2011 will grow by 5% each year. In twenty years, the policy will provide $663 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.

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

**Compounded increases:** The policy daily benefits will grow by 5% compounded each year as described above. For example, an initial daily benefit of $250 will be worth $663 twenty years later. **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 $250 per day will be worth $500 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.

![Chart 2](image)

[NOTE: In 2011, the cost of care for one year is $91,250]

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