



2025 WHAT HAPPENS WHEN LONG-TERM CARE COST RISE

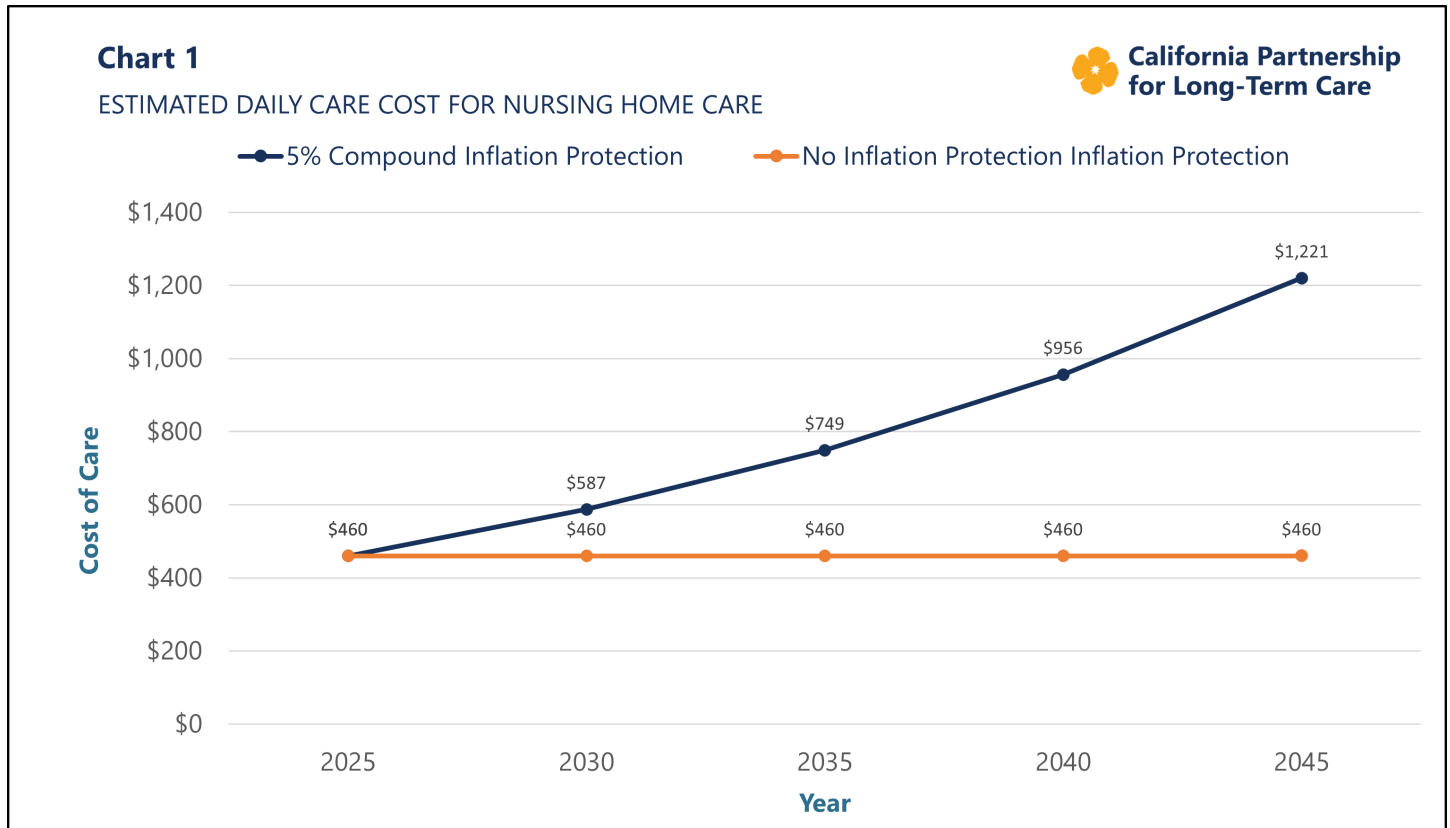
A guide by the California Partnership for Long-Term Care, a program of the Department of Health Care Services



California Partnership
for Long-Term Care

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.

The California Partnership for Long-Term Care (Partnership) estimates the cost of long-term care will continue to increase by at least 4.9% annually. **Chart 1** 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

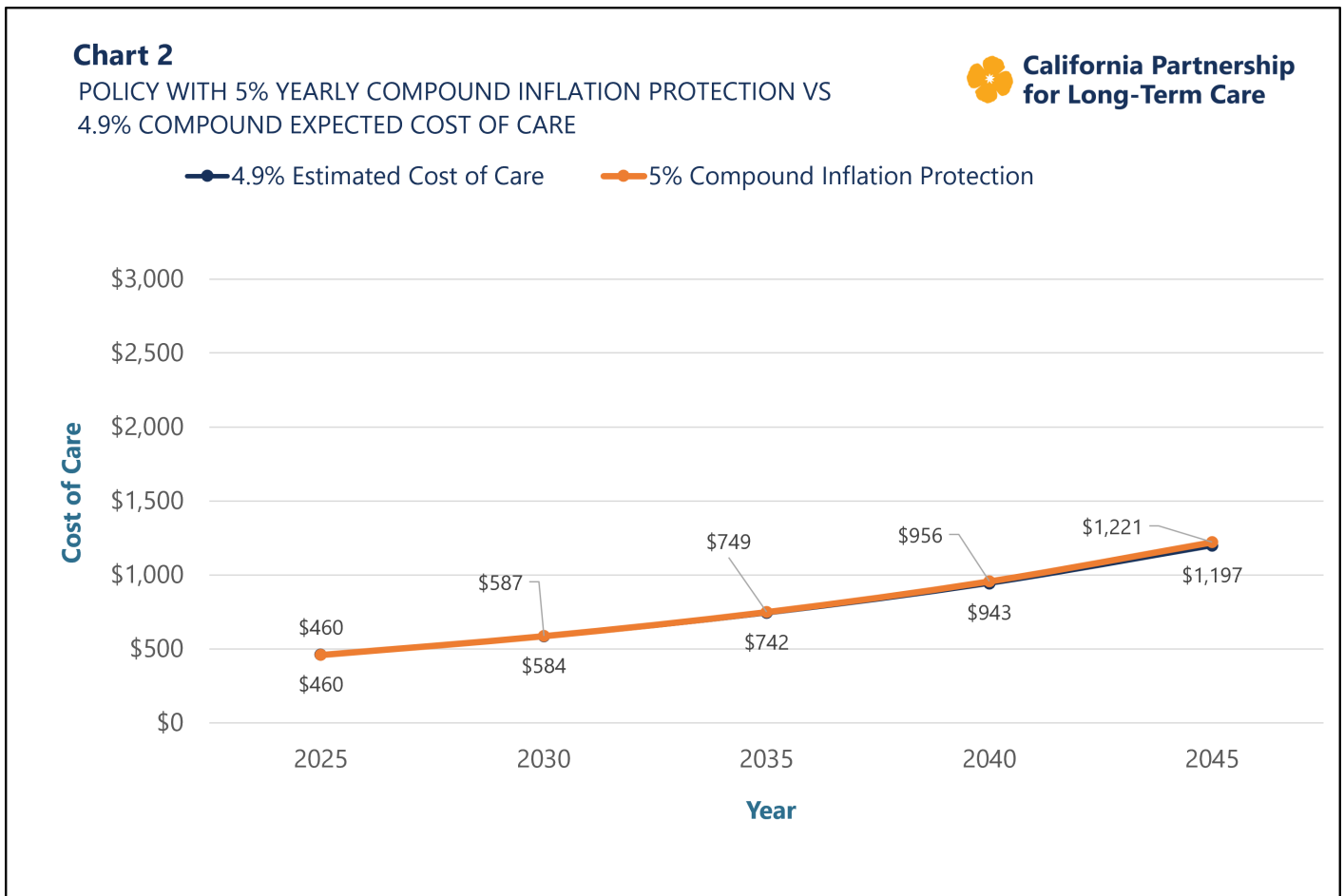


All policies approved by the California Partnership for Long-Term Care have a built-in inflation protection benefit.

If a 55 year old purchases a policy in the year 2025 that provides \$460 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 Care that costs \$460 per day in the year 2025 is likely to cost \$1,197 per day in twenty years. Without inflation protection, the \$460 per day policy purchased today will still only pay \$460 when the policyholder reaches age 75. That benefit amount will cover about 38% of the projected cost of care. The \$737 difference between the value of the policy and the projected cost of care would have to be paid by the policyholder.

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 \$460 in the year 2025 will grow by 5% each year. In twenty years, the policy will provide \$1,221 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 meets and exceeds the expected cost of care.



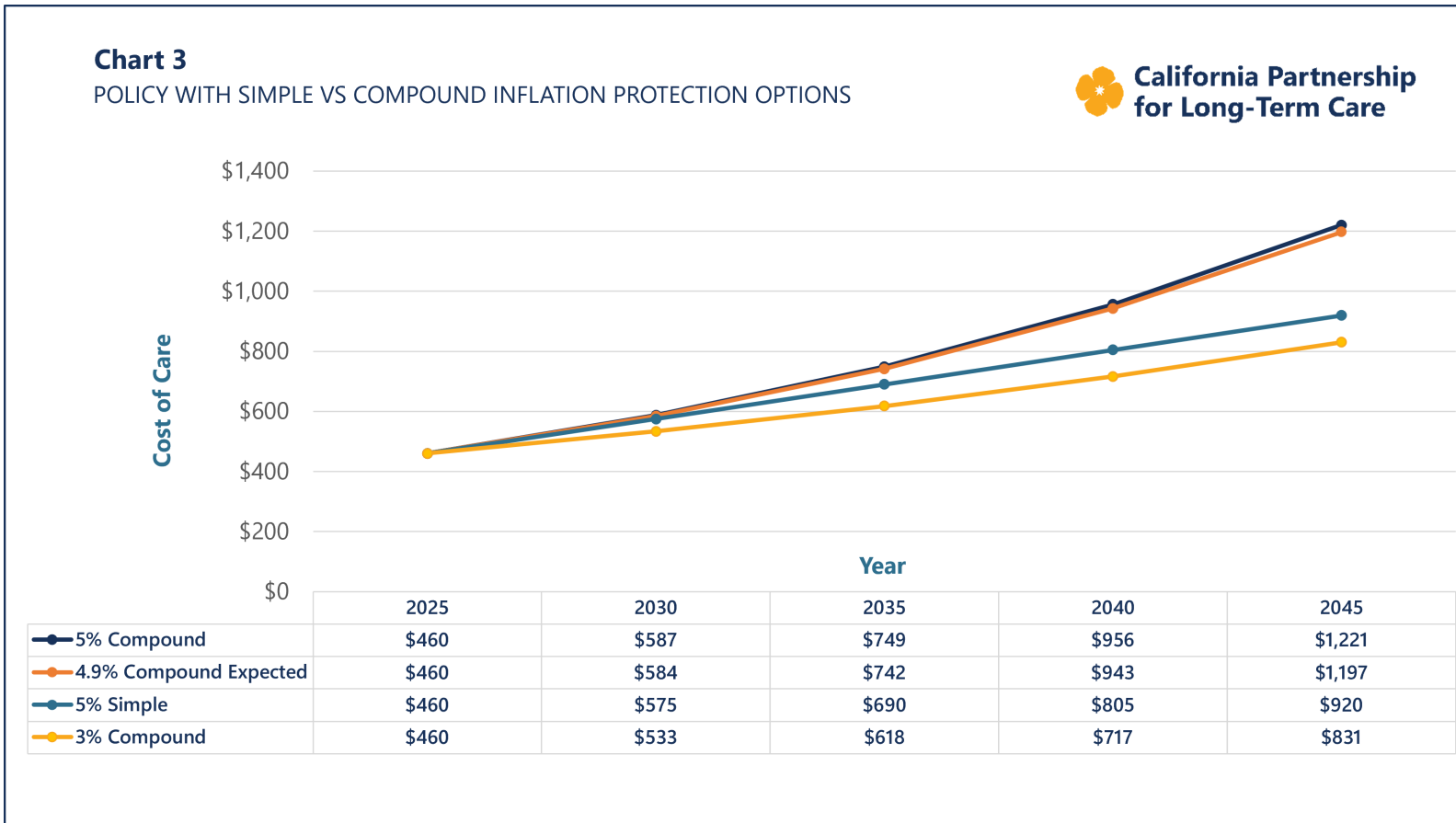
There are three available inflation protection options; 5% Compound, 5% Simple, and 3% Compound.

- » **5% Compound increases:** The policy daily benefits will grow by 5% compound each year as described above. For example, an initial daily benefit of \$460 will be worth \$1,221 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 \$460 per day will be worth \$920 twenty years later.
- » **3% Compound increases:** The policy daily benefit will grow by 3% compound each year. For example, an initial daily benefit of \$460 will be worth \$831 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 four types of inflation protection keep up with the expected future increases in the cost of one day of nursing home care.



1 No one can precisely predict future increases in the cost of care. This graph is based on an expected 4.9% annual increase in nursing home private pay rates as observed in the most recent 20 years (2006 - 2025) of California Cost of Care experience.

2 This estimate of the cost for one day of nursing home care is based on the California statewide average daily private pay rate.

NOTE: Actual rates vary in different regions of the state.