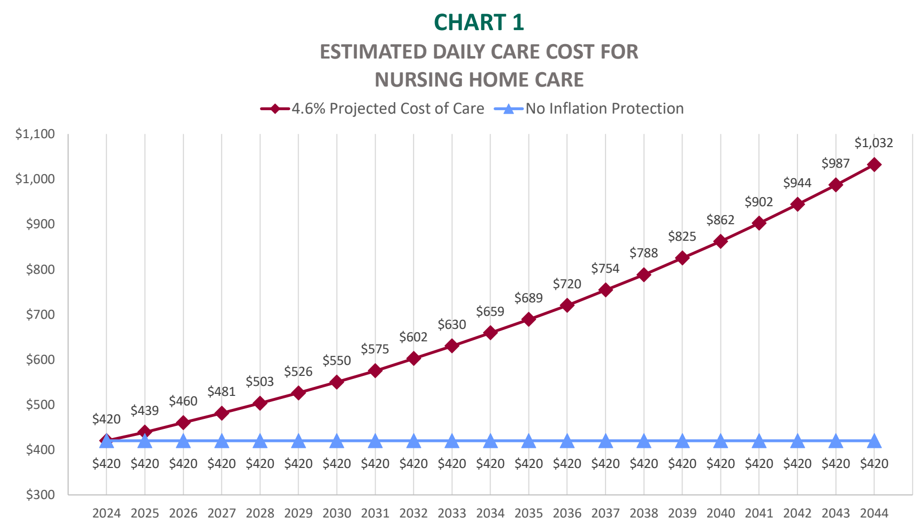
What Happens When Long-Term Care Costs Rise?

A Comparison of Costs and Benefit Amounts

2024

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.



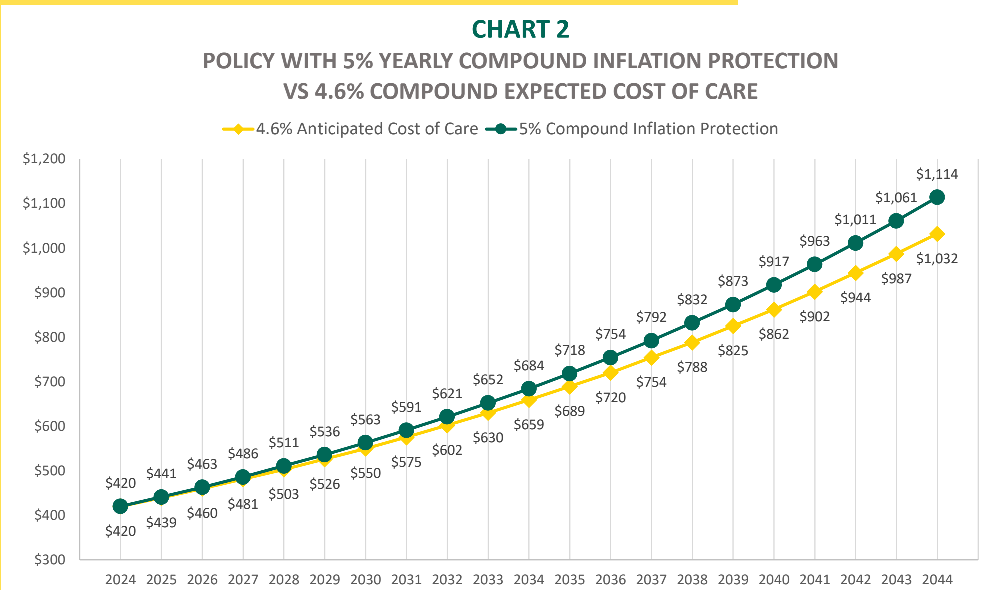
The California Partnership for Long-Term Care estimates the cost of long-term care will continue to increase by at least 4.6% annually. **Chart 1** compares the anticipated cost for nursing home care over the next twenty years against a long-term care policy that does not include an inflation protection feature which increases the value of the benefits as time goes by.[1]

If a 55 year old purchases a policy in the year 2024 that provides $420 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 $420 per day in the year 2024 is likely to cost $1,032 per day in twenty years. Without inflation protection, the $420 per day policy purchased today will still only pay $420 when the policyholder reaches age 75. That benefit amount will cover just over a third of the projected cost of care. The $612 difference between the value of the policy and the projected cost of care would have to be paid by the policy-holder.

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

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 $420 in the year 2024 will grow by 5% each year. In twenty years, the policy will provide $1,114 in daily benefits.

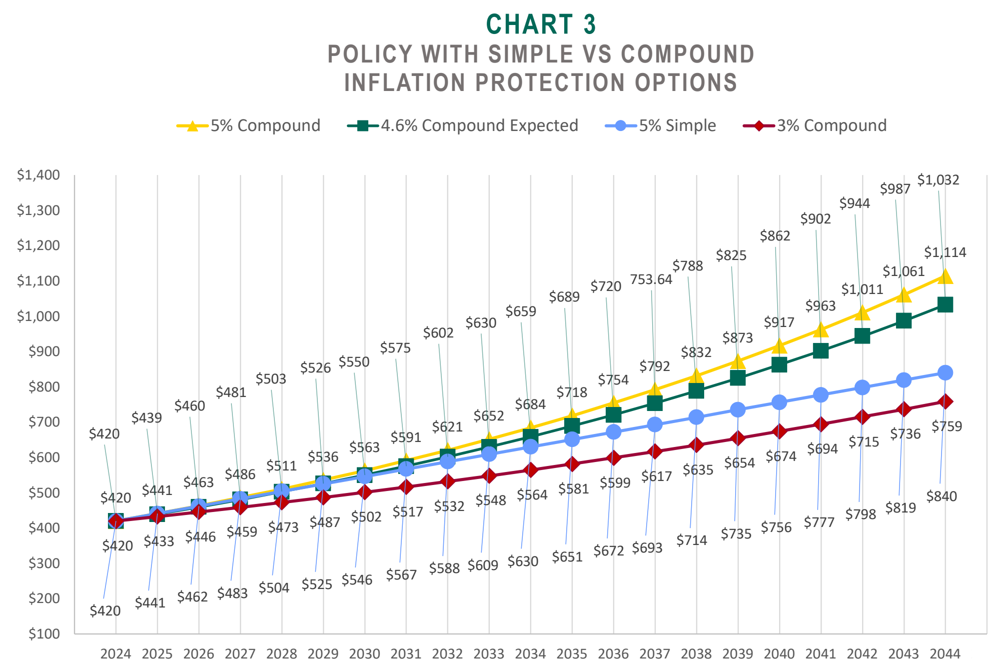
The actual cost for the care may be more or less than this projection, but **Chart 2** shows that a policy with 5% compound inflation protection meets and exceeds the expected cost of care.



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 $420 will be worth $1,114 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 $420 per day will be worth $840 twenty years later. **3% Compound increases:** The policy daily benefit will grow by 3% compound each year. For example, an initial daily benefit of $420 will be worth $759 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 of nursing home care.



[1] No one can precisely predict future increases in the cost of care. This graph is based on an expected 4.6% annual increase in nursing home private pay rates as observed in the most recent 20 years (2005 - 2024) 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.