# Long Term Care University

## Long Term Care University – Question of the Month

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**Q: We are considering purchasing Long Term Care Insurance policies without inflation, with inflation protection built into the price and with inflation protection that increases the price of the policy each year. What are the advantages and disadvantages of each type?**

**The Problem – Determining Whether or Not to Purchase Inflation Protection**
Most long term care insurance policies offer you the option to remove the inflation protection option from your policy when applying. Many consumers purchase an adequate amount of care per day (daily or monthly benefit) and care over the life of their policy (total pool of money) if they need care in the first year of owning their policy. Unfortunately, they shortchange themselves by not accounting for the rising cost of long term care services. They should purchase an amount of care adequate for the future cost of care. **A policy with adequate coverage for the cost of care today, with inadequate or no inflation protection, simply cannot keep pace with the 3%-5% compound price increases long term care service providers have been implementing.**

**The Solution – Purchase an Adequate Amount of Care for Future Needs with Inflation Protection**
Purchasing a policy with inflation protection built into the price (without premium increases) is more cost effective than a policy with a higher level of benefits today (without inflation and without premium increases).

**Disadvantages of Inflation Protection**
Higher initial premiums is the primary disadvantage to purchasing a policy with inflation protection. The secondary disadvantage is the unlikely need for a high level of care in the early years of the policy, before the inflation protection has increased the policy's benefits.

**Advantages of Inflation Protection**
If long term care (LTC) expenses grow at the same 3%-5% compound rate they have in the past, and you purchase a policy with a low daily limit and low total pool of money, your benefits are likely to be inadequate for future costs. **If you purchase a policy with 3% compound inflation protection and an adequate daily limit and total pool of money, your benefits are likely to be adequate for future costs.**

**Numbers Speak Louder than Words.** Let's look at a husband and wife that are each 55 years of age and are likely to need care in 25 years at the age of 80. They are comparing three policies. The chart below summarizes their combined benefits and premiums now and in 25 years.

**Long Term Care Insurance Without Inflation Protection, Without Premium Increases.** The primary advantage of this policy is the higher initial daily benefit and total pool of money. The primary disadvantage is the higher cumulative premiums over 25 years.

**Long Term Care Insurance With 3% Compound Inflation Protection on Benefits and 3% Compound Inflation Protection on Premiums.** The primary advantage of this policy is the lower initial premiums. The primary disadvantage is the lower initial daily benefit and total pool of money. This type of policy may be called 'Future Purchase Option' or 'Step-Rated Compound Benefit Increase Option'.

**Long Term Care Insurance With 3% Compound Inflation Protection on Benefits, Without Premiums Increases.** The primary advantage of this policy is the lower cumulative premiums over 25 years. The primary disadvantage is the lower initial daily benefit and total pool of money.

| Long Term Insurance LTC Services Growing at 3% | | | Long Term Care Insurance: 5 Years of Care Each Without Inflation Protection Without Premium Increases | | | | Long Term Care Insurance: 5 Years of Care Each 3% Compound Inflation Protection on Benefits & 3% Compound Annual Premium Increases | | | | Long Term Care Insurance: 5 Years of Care Each With 3% Compound Inflation Protection on Benefits Without Premium Increases | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Policy Year | Age | Daily Cost | Daily Benefit | Annual Premiums | Total Pool of Money | Cumulative Premiums | Daily Benefit | Annual Premiums | Total Pool of Money | Cumulative Premiums | Daily Benefit | Annual Premiums | Total Pool of Money | Cumulative Premiums |
| 1 | 55 | $ 150 | $ 314 | $ 3,971 | $1,146,343 | $ 3,971 | $ 150 | $ 2,580 | $ 551,500 | $ 2,580 | $ 150 | $ 3,248 | $ 551,500 | $ 3,248 |
| 15 | 70 | $ 234 | $ 314 | $ 3,971 | $1,146,343 | $ 59,567 | $ 234 | $ 4,020 | $ 852,987 | $ 52,005 | $ 234 | $ 3,248 | $ 852,987 | $ 48,722 |
| 25 | 80 | $ 314 | $ 314 | $ 3,971 | $1,146,343 | **$ 99,279** | $ 314 | $ 5,402 | $1,146,343 | **$ 99,466** | $ 314 | $ 3,248 | $1,146,343 | **$ 81,203** |

**Often Overlooked – Partnership Program and Compound Inflation**
Most consumers must purchase a long term care insurance policy with inflation protection or the policy cannot be certified under the Partnership Program – the program that allows you to protect your assets away from Medicaid.

**Action Step – Protect Yourself with Inflation Protection**
Purchase a LTC policy with inflation protection so your future benefits will be adequate and you pay the lowest cumulative premiums.

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