



# Long Term Care University

## Long Term Care University – Question of the Month

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Q: Some of the long term care insurance policies I am researching allow for inflation protection. Can you explain what that means and what advantages it may provide?

### **The Problem – The Rising Cost of Long Term Care**

At approximately \$220 per day, the average cost for a one year stay in a private nursing home room in 2008 was approximately \$80,000. With the average nursing home stay lasting approximately three years, you could spend over \$252,000 if you entered in a nursing home today.

If you are 55 years old today, you should expect to pay approximately \$930 for one day or \$340,000 for one year of nursing home care when you are likely to need it 25 years from now at the age of 80. Based on the average nursing home stay, expect to pay approximately \$1.1 million per person — **easily wiping out a lifetime of savings for many families.**

### **The Solution – Inflation Protection**

A long term care insurance policy with inflation protection, sometimes called an increase rider, increases your benefits each year. A long term care insurance policy without inflation decreases in value, on an inflation adjusted basis, every year the cost of long term care increases. Differentiating between the two most common forms of inflation protection is critical in determining which type is best for your needs.

#### **Simple Inflation Protection**

With simple inflation protection, your policy benefits increase at a fixed percentage of your original daily benefit. As evidenced by the chart to the right, a 5% simple inflation protection policy will increase a \$220 per day or \$80,000 per year benefit to \$495 per day or \$180,000 per year, over the course of 25 years. This should cover **about 53% of your daily or annual nursing home costs.**

#### **Compound Inflation Protection**

With compound inflation protection, your policy benefits increase at a significantly faster pace, as each year's benefit increase compounds upon the previous year's increase. As evidenced by the chart to the right, a 5% compound inflation protection policy will increase a \$220 per day or \$80,000 per year benefit to approximately \$930 per day or \$340,000 per year, over the course of 25 years. This should cover **about 80% of your daily or annual nursing home costs.**

#### **No Inflation Protection**

As you approach your 80<sup>th</sup> birthday, the cost to add inflation protection can become expensive. You may consider forgoing inflation protection and simply obtaining a policy with a daily benefit **greater than the current cost of care in the marketplace.**

#### **Action Step – Protect Yourself with Inflation Protection**

When you purchase a long term care insurance policy with inflation protection you protect yourself from the rising cost of long term care. Be sure your policy benefits increase as the cost of long term care increases or be prepared to spend significantly more out of your own pocket.

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**Daily Benefit with and without Inflation Protection**

