

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: CalPERS Long-Term Care

ITEM NUMBER: 9

CONSENT:

ATTACHMENT(S): 2

ACTION:

MEETING DATE: June 7, 2013 / 30 mins.

INFORMATION: X

PRESENTER: Ed Derman

PURPOSE

To provide an overview of the long-term care insurance market, describe the history of the CalPERS Long-Term Care Program including a discussion of the 2015 rate increase, and provide a list of educational resources available to California consumers of long-term care.

BACKGROUND

The Centers for Medicare and Medicaid Services estimate that 70 percent of people will require long-term care at some point in their lives. Risk factors include age, disability and health status, living arrangements (individuals living alone are more likely to need long-term care) and gender (women are more likely to live alone at advanced ages). In addition, women tend to utilize long-term care services longer than men (3.7 years and 2.2 years, respectively).

Professional long-term care services are a significant expense. The [California Department of Health Care Services](#) reports that nursing home costs in California average \$250 per day. The current annual total cost of care for an individual in California is \$91,250.

A report from the SCAN Foundation¹ (Attachment 1) presents the cost of care in more detail and describes who pays for care in California. According to the report, 66 percent of Californians over 40 say they could not afford more than three months of care in a nursing home.

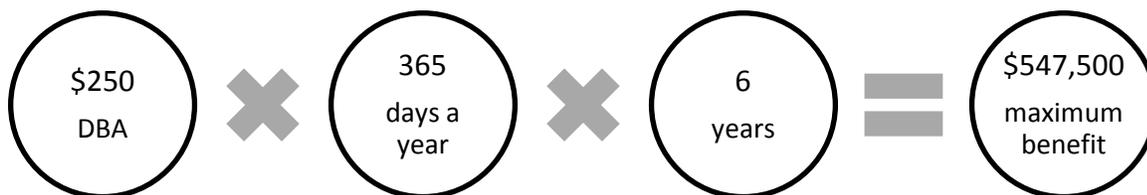
About Long-Term Care Insurance

Long-term care insurance is a relatively new class of insurance that was first seen in the 1980's. It provides support for benefits not usually covered by private insurers or by Medicare. Covered

¹First started in April 2008 through a \$205 million one-time contribution from the SCAN Health Plan, the SCAN Foundation is one of the largest independent foundations in the United States focused entirely on improving the quality of health and life for seniors. The Foundation provided an introduction to Long-Term Care to the California Assembly Aging and Long-Term Care Committee's recent panel discussion "Paying the Price for A Long Life: What's Next for Long-Term Care Insurance?" highlighting the information in the attached report (Attachment 1).

services typically include activities of daily living, such as bathing, mobility, housework or taking medication; services may be home-based or in a care facility. Specific covered services vary by insurer.

Long-term care policyholders can select varying degrees of coverage, typically expressed as a function of a daily benefit amount (DBA) over a period of time. For example, a plan with a daily benefit amount of \$250 on a 6-year policy will cover up to \$250 each day, with a maximum payout of \$547,500 over six or more years.



If the daily benefit is not exhausted, the benefit may continue past 6 years until the maximum payout is reached. In this particular example, if only \$200 was needed each day, the benefit could last seven and a half years ($\$547,500 \div 365 \text{ days per year} \div \200 per day). In contrast, lifetime policies have no maximum payout. These policies are more expensive for consumers and represent higher risk to insurers.

The California Partnership for Long-Term Care, a project of the Department of Health Care Services, recommends consumers consider the following attributes of a high-quality policy:

- Built-in inflation protection
- Care management and coordination services
- A DBA that is at least 70 percent of the cost of local nursing care (currently equal to \$170 in California)
- Includes community-based care benefits
- An elimination period (the waiting period before coverage commences) of 30 or fewer days on a policy of less than 2 years and no more than 90 days on other policies
- A residential care benefit that covers 70 percent of the minimum daily benefit
- A home care benefit that covers 50 percent of the minimum daily benefit

There is a subset of long-term care policies known as “Partnership policies.” These are policies provided by a limited number of insurers approved by the California Partnership for Long-Term Care, and include the inflation protection and care management described above. The distinguishing characteristic of a Partnership policy is lifetime asset protection, a feature that shields additional assets in the event an individual obtains support from Medi-Cal after the policy is exhausted. Every dollar spent under a Partnership policy represents a protected dollar in assets. For example, if a Partnership policy pays \$500,000 in benefits, the Partnership policyholder can retain an additional \$500,000 in assets after the Partnership policy benefit is exhausted and the policyholder begins coverage under Medi-Cal.

The Cost to Insure

Experience has shown that during the early years of long-term care, insurers were overly optimistic in their projections and underwriting standards. In addition, insurers rely upon investment income to manage long-term expenses, and persistently low interest rates have further sapped profitability.

In California, the Insurance Commissioner must provide prior approval to insurance companies who wish to sell in the state. Rate hikes are also subject to prior approval by the Insurance Commissioner. Private insurers routinely request double-digit rate increases, most notably in the last several years. The Insurance Code sets standards for justification and certification by the insurance carrier, and the Commissioner may approve or reject requested hikes and holds insurance companies accountable when out-of-step actuarial standards are found to lead to rate hikes. Partnership policies' rate increases are additionally regulated by the California Partnership for Long-Term Care. These valuable consumer protections represent uncertain profitability and challenging risk management for private insurers.

One large insurer, John Hancock, received media coverage in 2010 with a 40 percent rate increase that went into effect last year. Five other major carriers have since stopped offering standalone long-term care policies. Lack of profitability due to unrealized expectations has led to a benefit structure that is increasingly costly to consumers while providing a lower benefit, causing sales to slow. The rising rates also increase the likelihood that healthy policyholders (often older individuals on a fixed income) will allow their policies to lapse. This sets the stage for adverse selection and more rate increases, leading [Moody's](#) in September 2012 to question the viability of the market overall.

CLASS Act

One of the provisions of the federal Affordable Care Act, which enacted health care reform in 2010, was the Community Living Assistance Services and Supports (CLASS) Act. This provision was intended to provide widely-accessible, affordable long-term care coverage. However, the CLASS Act was repealed in January 2013 following a [report and recommendation by its administrator](#) that an actuarially solvent plan wasn't possible within the confines of the statute. CLASS benefits were to be funded entirely through enrollee premiums, and their sustainability required a reasonable enrollment rate in this voluntary program. The administrator cited uncertain actuarial modeling and an uncompetitive cost/benefit ratio under viable plans, leading to adverse selection and driving premium costs, with premiums up to \$3,000 a month if adverse selection was particularly serious. To be feasible, significant tightening of eligibility requirements would have been needed, and benefits akin to those offered in the private market would need to be offered—measures that were out-of-step with the intent of the statute.

In the wake of the repeal of the CLASS Act, a new federal Commission on Long-Term Care was established, and appointments were completed in March. A report of findings from the commission is due in September 2013.

The former actuary for the program, Robert K. Yee, addressed the California Assembly Aging and Long-Term Care Committee on May 7, 2013, acknowledging the nationwide lack of preparation for long-term care and noting that a public policy solution is still needed.

CalPERS LONG-TERM CARE PROGRAM

CalPERS' Long-Term Care Program is the nation's only voluntary, self-funded, not-for-profit program. The CalPERS program is funded entirely through policyholder contributions. CalPERS Long-Term Care Program is overseen by the CalPERS Board of Administration and is not subject to regulation by the California Insurance Commissioner. Currently, the CalPERS program is available to all California public employees (including CalSTRS members), retired public employees, and their spouses, parents, parents-in-law and adult siblings. CalPERS administers lifetime, 6-year and 3-year benefit policies with or without "inflation protection" (inflation protection in the CalPERS policies is equal to a 5 percent annual compounded increase in the DBA, regardless of the actual rate of inflation), and 1- and 2-year Partnership policies with inflation protection. Approximately 150,000 individuals hold a policy with CalPERS Long-Term Care Program, 63 percent of whom have lifetime benefits. The program currently is administered for CalPERS by Univita Health.

Below is a timeline of enrollment periods and premium increases.

- 1995: CalPERS Long-Term Care Program established
- 2003: Premium increases of 6 to 30 percent
- 2007: Premium increase of 5 to 47 percent on policies purchased between 1995 and 2004
- 2008: Program closed to new applicants
- 2010: Premium increase of 15 to 22 percent on policies purchased between 1995 and 2004
- 2011: A series of 5 percent premium increases annually for members with a Lifetime Comprehensive plan with Inflation Protection purchased between 1995 and 2002
- October 2012: Board approves premium increase on policies purchased between 1995 and 2004 and new policy options to avoid or mitigate increase of 85 percent over two years
- February 2013: CalPERS Board of Administration approved an open application period beginning December 2013

Upcoming Rate Increases

CalPERS is implementing the last of a series of planned five percent annual rate increases in 2013 and in 2014, to be followed by an 85 percent increase over two years beginning in 2015. The 85 percent premium increase affects over 110,000 policyholders who purchased the following between 1995 and 2004:

- Lifetime policies with or without inflation protection
- 6-year and 3-year policies with inflation protection

Policyholders who hold a 6-year or 3-year policy without built-in inflation protection, a Partnership policy, or any policy purchased in 2005 or later are not affected by the 2015 rate increase.

According to CalPERS, [several factors](#) contributed to the 2015 rate increase:

- Worse-than-expected claims, due in part to less stringent underwriting standards in the mid-1990s
- Higher-than-expected claims incidence
- Lower-than-expected investment income

CalPERS additionally cites a more conservative investment allocation adopted in 2012, which resulted in a reduction in its investment return assumption to 5.75 percent, which affected their long-term projections.

CalPERS has sent a series of letters providing information to policyholders and is providing those affected with a choice to modify or keep their existing coverage. The following table illustrates the correspondence and decision timeline by policy type.

Affected Policy	General Communication Letter on Premium Increases	Planned Premium Increases	Coverage Change Offer Letter
Polices Purchased 1995-2002 with Lifetime Benefits and Inflation Protection	Feb 2013	5% effective Jul 2013 5% effective Jul 2014 85%* effective Jul 2015	May 2013 May 2014 May 2015
Polices Purchased 1995-2004 with Lifetime Benefits or Inflation Protection	Feb 2013	85%* effective Jul 2015	May 2014 May 2015
Polices Purchased 1995-2008 and Partnership Plans with neither Lifetime Benefits nor Inflation Protection	Feb 2013	N/A	N/A

* 85 percent increase is spread over two years.

Source: CalPERS

Available options to modify coverage depend upon the current coverage. For example, lifetime policyholders with inflation protection may convert to a 10-year policy with “retained inflation” (that is, the increased value of benefits due to prior annual adjustments would continue). The options allow individuals to avoid the premium increase; some policyholders, depending on age, will see their premiums decrease if they elect to modify. Any policy conversion from one traditional CalPERS policy to another would not require any additional underwriting. Attachment 2 contains a detailed description of options and outcomes.

December 2013: Long-Term Policy Category 4

Since 1995, CalPERS has twice made changes to available plan offerings, coverage and prices. These three categories, offered from 1995 to 2008 are known as Long-Term Care Policy Categories 1 through 3. The new plans offered under Category 4 will include Partnership and non-Partnership plans, a new 10-year policy (according to CalPERS, fewer than one percent of policyholders require care for more than 9 years) and optional riders. Lifetime benefits will not be offered to new policyholders.

In a presentation to the CalPERS Board of Administration’s Pension & Health Benefits Committee on February 20, the following sample pricing for a single coverage plan under each of the CalPERS LTC Programs 1 through 4 are compared to three private commercial carriers and the Federal Long-Term Care Insurance Program for federal employees.

Single Policy Annual Premiums Comparison among LTC1, LTC2, LTC3 and LTC4 based on \$200 Daily Benefit Amount

		3 Year Benefit Period			
Plan**		Age 40	Age 50	Age 60	Age 70
Base Plan Without Riders	LTC1	\$ 424	\$ 666	\$ 1,280	\$ 2,820
	LTC2	\$ 462	\$ 706	\$ 1,276	\$ 2,992
	LTC3	\$ 482	\$ 696	\$ 1,256	\$ 2,956
	LTC4	\$ 663	\$ 1,044	\$ 1,838	\$ 3,697
	Genworth	\$ 1,168	\$ 1,253	\$ 1,790	\$ 4,523
	John Hancock	\$ 756	\$ 1,170	\$ 1,980	\$ 4,320
	FLTCIP	\$ 326	\$ 558	\$ 1,066	\$ 2,280

		6 Year Benefit Period / 5 Year Benefit Period			
Plan**		Age 40	Age 50	Age 60	Age 70
Base Plan Without Riders	LTC1 (6 Year)	\$ 504	\$ 816	\$ 1,552	\$ 3,458
	LTC2 (6 Year)	\$ 544	\$ 850	\$ 1,562	\$ 3,740
	LTC3 (6 Year)	\$ 602	\$ 892	\$ 1,610	\$ 3,788
	LTC4 (6 Year)	\$ 853	\$ 1,436	\$ 2,703	\$ 5,602
	Genworth (6 Year)	\$ 1,545	\$ 1,640	\$ 2,455	\$ 6,233
	John Hancock (6 Year)	\$ 918	\$ 1,404	\$ 2,394	\$ 5,328
	FLTCIP (5 Year)	\$ 384	\$ 665	\$ 1,290	\$ 2,761

		Lifetime Benefit Period / 10 Year Benefit Period			
Plan**		Age 40	Age 50	Age 60	Age 70
Base Plan Without Riders	LTC1 (Lifetime)***	\$ 1,402	\$ 2,346	\$ 4,292	\$ 9,694
	LTC2 (Lifetime)***	\$ 1,484	\$ 2,375	\$ 4,381	\$ 10,737
	LTC3 (Lifetime)	\$ 918	\$ 1,384	\$ 2,434	\$ 5,718
	LTC4 (10 Year)	\$ 940	\$ 1,569	\$ 2,923	\$ 5,862
	Genworth (10 Year)	\$ 1,845	\$ 1,995	\$ 2,900	\$ 7,440
	John Hancock (10 Year)	\$ 1,206	\$ 1,926	\$ 3,330	\$ 7,272
	FLTCIP (Lifetime)	\$ 501	\$ 887	\$ 1,713	\$ 3,635

** Genworth Privileged Choice Flex 2012 rates.

John Hancock Custom Care III LTC-11 2012 rates.

FLTCIP – Federal Long Term Care Insurance Program 2012 rates.

*** LTC1 and LTC2 premiums for the lifetime benefit period include the 85% rate increase.

Source: CalPERS

New plan provisions and projected rates at 40, 50, 60 and 70 years of age are discussed in detail on the [CalPERS website](#).

The Long-Term Care Program will open to new participants beginning in December 2013. CalPERS strategy includes appropriately underwriting the program to reduce risk in the pool. Current legislation, Assembly Bill 373 (Mullin), extends eligibility for enrollment to adult children and registered domestic partners of public employees, further broadening the risk pool.

CalSTRS Members and Long-Term Care Insurance

In the 2011 Retirement Readiness Assessment, 38 percent of CalSTRS retirees and 17 percent of active members reported holding long-term care insurance. CalSTRS does not have access to details such as the level of coverage or whether the policies were with private companies or CalPERS.

RESOURCES ON LONG-TERM CARE

More information on the long-term care market and advice for consumers of long-term care insurance is available from the following state and federal agencies.

- The US Department of Health and Human Services has a website focusing on planning and education at longtermcare.gov.
- The California Department of Aging provides information for residents and insurers online and in its publication “[Taking Care of Tomorrow](#).”
- The California Department of Insurance posts extensive information and resources, including a searchable [history of rate increase requests](#) by private insurers.
- The California Department of Health Care Services has a consumer education program, the Partnership for Long-Term Care available at rureadyca.org.

Who Pays for Long-Term Care in California? (Updated)

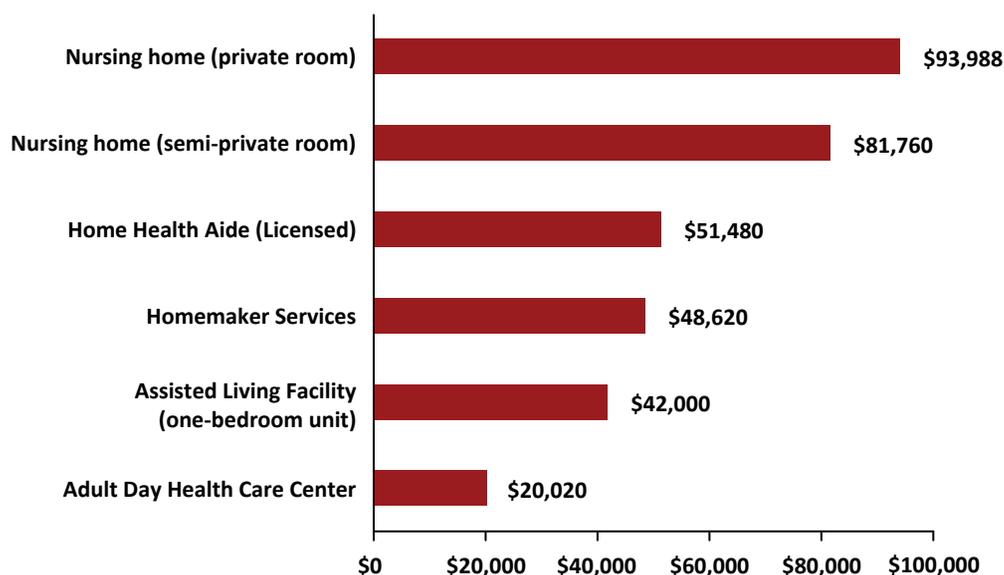
Many older adults and people with disabilities of all ages require supportive services, known as long-term care. As the population ages, demand for long-term care is increasing, along with the spending on these services. Long-term care services are financed primarily by public dollars, with the largest share paid by Medi-Cal (California's Medicaid program), the joint federal and state funded medical assistance program for low-income individuals. Long-term care services are also financed privately through out-of-pocket payments and long-term care insurance.

This fact sheet describes how long-term care is financed in California.

Long-Term Care Costs

- The median annual costs for selected long-term care services in California in 2012 varied, with **nursing homes**—institutions that provide medical and supportive services to people with significant functional and/or cognitive impairment—being the most expensive (See Figure 1).¹

FIGURE 1 Median Annual Costs for Selected Long-Term Care Services in California, 2012



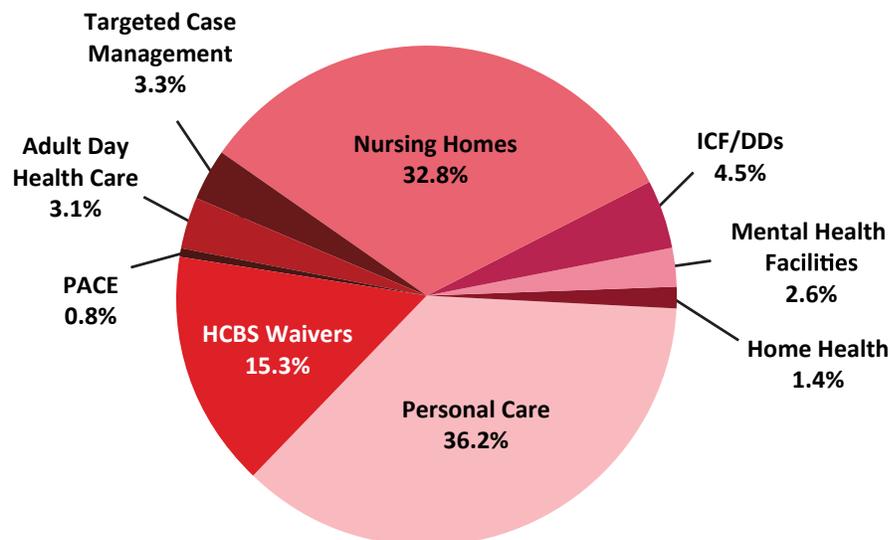
Source: Genworth Financial. Genworth 2012 Cost of Care Survey: Home Care Providers, Adult Day Health Care Facilities, Assisted Living Facilities and Nursing Homes. 2012.

Note: Annual costs for home health aide/homemaker services are based on 44 hours of care per week, multiplied by 52 weeks. Annual costs for adult day health care are based on a daily 6-8 hour rate for 5 days a week, multiplied by 52 weeks.

Public Financing

- Medi-Cal long-term care expenditures for FY 2010 totaled about **\$11.8 billion**. This represents approximately 31% of total Medi-Cal spending.
- California spends approximately **57%** of its Medi-Cal long-term care funding on home- and community-based services (HCBS), such as personal assistance with eating, bathing or dressing provided in one's home. **Forty-three percent** is directed toward institutional long-term care, which includes nursing homes, intermediate care facilities for people with developmental disabilities who do not need continuous nursing care, but require supervision and personal assistance, and mental health facility services.²
- In early 2012, the Adult Day Health Care (ADHC) program was replaced by the Community-Based Adult Services (CBAS) program. CBAS serves adults age 18 and older with functional impairments that place them at risk of institutionalization. In FY 2010-11, the annual cost of the ADHC program in California was **\$388.9 million**.³
- The Program of All-inclusive Care for the Elderly (PACE) provides integrated care to frail elderly from an interdisciplinary team of health care and other professionals.⁴ Medi-Cal expenditures for the PACE program in FY 2010 totaled about **\$102.5 million**.²
- The Multipurpose Senior Services Program (MSSP) is a Medicaid waiver program that provides comprehensive case management and services in home for seniors at risk of nursing facility placement.³ Annual expenditures for MSSP in FY 2010-11 were about **\$45.5 million**.³

FIGURE 2 Medi-Cal Long-Term Care Spending by Services, FY 2010



Source: Eiken S, Sredl K, Burwell B, Gold L. Medicaid Expenditures for Long-Term Services and Supports: 2011 Update. 2011; State of California, Department of Aging, Long-Term Care and Aging Services Division. Statistical Fact Sheets and Program Narratives. Sacramento, California, March 2012.

Out-of-Pocket Spending

- Californians, overall, are unprepared for the costs of long-term care. Of California voters age 40 and older, **66%** say they could not afford more than three months of nursing home care, and **42%** could not afford one month of care.⁵
- **Fifty-seven percent** of these individuals could not afford more than three months of in-home care, with one in three unable to afford one month of care.⁵
- Median annual private pay costs for nursing home services in California average **224%** of an older person's annual income, compared to 241% nationally.⁶
- Median annual private pay costs for home health services in California average **82%** of an older person's annual income, compared to 88 percent, nationally.⁶

Other Private Financing

- As of December 2010, there were **774,454** long-term care insurance policies in force in California.⁷
- Private long-term care insurance is one way that individuals can finance their long-term care needs. In 2009, the number of private long-term care insurance policies in effect was **43 per 1,000 Californians** age 40 and older.⁶
- Of these policies in force in California, **399,078** or **51.5%** were group policies. Another **375,376** or **48.5%** were individual policies.⁷

Other Private Financing

- Most long-term care is provided, unpaid, by family members and friends. The estimated economic value of unpaid caregiving in California in 2009 was **\$47 billion**.⁸

References

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CalPERS Long-Term Care Insurance Program
For Lifetime Policy with Built-in Inflation Protection
Options Related to Upcoming Premium Increases

Available Options	Benefit Period	Current Daily Benefit Amount	Inflation Protection	Change to Current Premium	Future Premium Increases
Option 1: Accept the 2013 (5%) premium increase with no change to any benefits.	Lifetime	No Change	Keep	5% Increase	2014 (5%) and 2015 (85%)
Option 2: Avoid the 2013 (5%) premium increase by decreasing current Daily Benefit Amount by 5% and keeping current premium the same.	Lifetime	5% Decrease	Keep	No Change	2014 (5%) and 2015 (85%)
Option 3: Avoid the 2013 (5%) premium increase by reducing Lifetime Coverage to a 6-Year Benefit Period and keeping Built-in Inflation Protection.	6-Year*	No Change	Keep	Reduce	2015 (85%)
Option 4: Avoid the 2013 (5%) premium increase by reducing Lifetime Coverage to a 3-Year Benefit Period and keeping Built-in Inflation Protection.	3-Year*	No Change	Keep	Reduce	2015 (85%)
Option 5: Avoid the 2013 (5%) premium increase by reducing Lifetime Coverage to a new 10-Year Benefit Period and dropping your Built-in Inflation Protection, while retaining current Daily Benefit Amount.	10-Year*	No Change**	Drop** (But retain current Daily Benefit Amount)	Reduce	No Premium Increase for 2013, 2014 or 2015
Option 6: Avoid the 2013 (5%) premium increase by reducing Lifetime Coverage to a new 6-Year Benefit Period and dropping your Built-in Inflation Protection, while retaining current Daily Benefit Amount.	6-Year*	No Change**	Drop** (But retain current Daily Benefit Amount)	Reduce	No Premium Increase for 2013, 2014 or 2015
Option 7: Avoid the 2013 (5%) premium increase by reducing Lifetime Coverage to a new 3-Year Benefit Period and dropping Built-in Inflation Protection, while retaining current Daily Benefit Amount.	3-Year*	No Change**	Drop** (But retain current Daily Benefit Amount)	Reduce	No Premium Increase for 2013, 2014 or 2015

***Reducing Comprehensive Lifetime Policy Coverage**

Reducing Lifetime Coverage amount to a 10-Year, 6-Year, or 3-Year Benefit Period will provide a total coverage amount equal to ten years, six years, or three years x 365 days x the current Daily Benefit Amount. For example, a \$257 Daily Benefit Amount will provide coverage up to \$938,050 for a 10-Year Benefit Period (365 days x \$257 x 10 years = \$938,050). The 6-Year Benefit Period will provide up to \$562,830 in total coverage, and the 3-Year Benefit Period will provide up to \$281,415.

The following scenario illustrates premiums for a policy issued 15 years ago. This is an example only and serves to illustrate how monthly premiums for a single policy may change based on a \$257 Daily Benefit Amount. The rates for Lifetime Coverage include the 5 percent premium increases in 2013 and 2014, as well as the 2015 premium increase of approximately 85%.

Illustration of Monthly Premiums				
Plan	Issue Age 40	Issue Age 50	Issue Age 60	Issue Age 70
Lifetime (Option 1)	\$ 262	\$ 420	\$ 652	\$ 1,032
10-Year (Option 5)	\$ 79	\$ 148	\$ 304	\$ 481
6-Year (Option 6)	\$ 54	\$ 87	\$ 166	\$ 481
3-Year (Option 7)	\$ 45	\$ 71	\$ 137	\$ 302

Specific premium amounts for these options will vary depending on policyholder’s age when the policy was issued and other characteristics of the policy.

****Dropping Built-in Inflation Protection and Retaining Current Daily Benefit Amount**

Options 5, 6 and 7 incorporate the concept of retained inflation—the ability to keep the Daily Benefit Amount the policyholder has already accrued and paid for over the years. By dropping Built-in Inflation Protection the policyholder avoids the premium increases, but maintains the current Daily and Monthly Benefit Amounts. For example, if the original \$130 Daily Benefit had Inflation Protection and over time it has increased to \$257, the policyholder will be able to retain the \$257 Daily Benefit and reduce the premium by dropping on-going inflation protection increases.