John Hancock | Leading Edge
10 Reasons Why CPI-linked Inflation Protection Makes Sense

John Hancock
LONG TERM CARE INSURANCE

Leading Edge's **Automatic Inflation Coverage** is another industry-first from John Hancock, providing clients with **unlimited compound inflation protection** and annual benefit increases linked to the Consumer Price Index for all Urban Consumers (CPI). Here are ten great reasons why CPI-linked Automatic Inflation Protection makes sense:

1. It's a smart approach to inflation protection

The CPI is one of the most recognized and trusted economic indicators in the U.S. today. Used to provide cost-of-living wage adjustments to millions of American workers, the CPI reflects changes in housing and labor costs — the key drivers of long term care costs today and in the future. By directly linking benefit increases to a relevant inflation index that closely tracks changes in the costs of goods and services, John Hancock has created a more meaningful and efficient approach to compound inflation protection. For more information on the CPI, go to www.bls.gov.

2. It's a strong indicator of LTC costs

The Consumer Price Index for all Urban Consumers (CPI) is one of the most suitable indexes for tracking current and future LTC costs. When you look the LTC landscape, the majority of services are, and will continue to be, custodial in nature. Particularly as more people choose to stay home as they age, the housing and labor costs associated with home and community-based care will represent the main drivers of inflation.

The largest components of the CPI are housing, transportation and food — in which labor costs are included. Below are the industries and their respective weightings represented within the CPI:

Housing	42%
Transportation	17%
Food and beverage	15%
Medical care	6%
Recreation	6%
Education and communication	6%
Apparel	4%
Other	3%

Some people mistakenly believe the CPI-Medical would be a more suitable measure. However, it has little relation to LTC costs, since the index's movement is driven by the costs of lifesaving devices, complex medical procedures, prescription drugs, and malpractice insurance premiums — none of which affect LTC costs.

3. There is NO CAP on benefit increases

Just as there is no limit to the rate of inflation (or changes in the CPI), there also is no limit to how much your clients' benefits can grow with compound Automatic Inflation Protection. Even in periods of very high, double-digit inflation, like we saw in the 1970s and early 80s, clients' benefit increases will follow accordingly.

Examples of CPI double-digit inflation years, 1979–1981

1979	1980	1981
11.3%	13.5%	10.3%

4. Benefits NEVER decrease

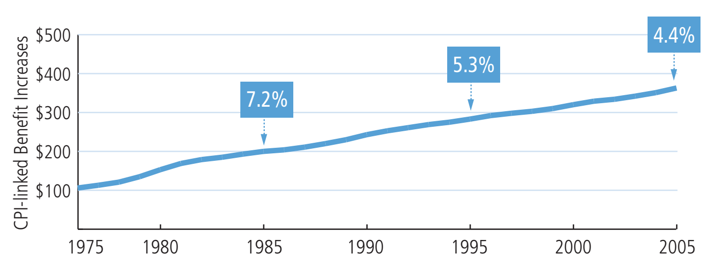
With compound Automatic Inflation Protection linked to the CPI, clients' benefits have unlimited upside potential with no downside risk. If the percentage change in the CPI is negative, which hasn't occurred in more than 50 years, your clients' benefits remain level. Future increases to policy benefits begin again after they offset a prior year's decrease in the CPI.

5. It's designed for the long term

Similar to the performance of retirement investments, annual LTC benefit increases linked to the CPI also fluctuate over short periods of time. Therefore, it's important to maintain a long-term perspective and keep in mind that your clients are getting COMPOUND inflation protection — with no limit on benefit increases each year.

The chart below shows the annualized compounded growth of a $100 daily benefit linked to the CPI over 10, 20, and 30-year time periods beginning in 1975.

CPI annualized growth rates, 1975–2005[1]



[1]Historical changes in the CPI may not be indicative of future results.

6. It provides the advantages of COMPOUND inflation protection

At the same rate of return, annual increases based on "simple" can keep pace with "compound" in the first few years. However, over longer time periods, benefit increases based on annual compounding will provide significantly better results. While "simple" provides annual increases based only on the original benefit purchased, "compound" provides annual benefit increases based on both the benefit purchased and previous benefit increases. As a result, compounding offers policyholders a powerful means to ensure their benefits will keep pace with inflation over the decades to come.

7. It's a more cost-effective approach

With Automatic Inflation Coverage linked to the CPI, clients get the compound inflation protection they require, paying for exactly what they need — and no more. While this approach is more affordable than traditional 5% compound, there's no sacrifice in the level of inflation protection. The underlying investment strategy behind *Leading Edge* is based on investments whose returns match the CPI — so regardless of how much the CPI increases, the product pricing remains stable. No other compound inflation approach offers this kind of protection or unlimited potential on annual increases.

8. It is backed by proven investment expertise

The ability to link LTC insurance benefits to the CPI is achieved through the proven investment expertise of John Hancock and its parent company Manulife Financial, the 4th largest insurer in the world. We developed a unique investment strategy that matches CPI-linked benefits with CPI-linked investments. So whenever the CPI changes, policy benefits and John Hancock's investment income on underlying assets are synchronized — no matter what the index does. Even if the CPI experiences double-digit increases, the stability of the investment strategy that supports *Leading Edge's* annual benefit increases and overall product pricing is ensured.

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The right product. The right price. The right time.

9. LTC cost increases have stabilized in recent years

Historically, data showed the cost of care in nursing homes increasing at higher rates than the CPI. This trend has declined in recent years, as increases in the cost of care have stabilized and moved more in line with overall inflation increases.

Recent increases in LTC costs[2]

Type of long term care	2005–2006 average change
Nursing home — private room	1.5%
Nursing home — semi-private room	3.9%
Assisted living facility	2.2%
Home health care	No change

Higher increases in previous years were due to shifts in where different types of care were provided over time. Years ago, home health care or assisted living facility care was less common. As a result, even people who only needed basic custodial care had to go to nursing homes. As more attractive and less costly care settings for custodial care emerged over the years, nursing homes became the setting to receive more acute or skilled care, which contributed to higher increases in nursing home care relative to overall inflation (CPI). Now that new care settings are in the mainstream, annual increases in the cost of care (in all settings) have stabilized and are better aligned with the CPI, which increased 3.4% in 2005. We expect this trend will continue in the future.

10. It's brought to you by John Hancock— A name your clients know and trust.

John Hancock is a leader in long term care insurance, with:

- More than 938,000 policyholders[3]
- Over $1 billion in claims paid[3] and over $6 billion in reserves[3]
- Some of the highest ratings for financial strength and stability in the industry, including a triple-A rating (AAA) from Standard & Poor's[4]—the highest rating available

For more information, please contact:

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[2] MetLife Mature Market Institute, Survey of Nursing Home and Home Health Care Costs, September and October 2006.

[3] Based on John Hancock internal data as of September 30, 2006, including individual and group LTC insurance, and 50% of the Federal Long Term Care Insurance Program.

[4] As of November 7, 2006.