## 7702 Cash Value Life Insurance - The alternative to long-term care insurance you should know about

**5 MIN. READ**

The average person has a longer life expectancy than at any time in our nation’s history. This increased life expectancy is correlated to the many advancements in healthcare. However, living longer typically means a cumulative increase in long-term medical care expenses. Presently, [end-of-life care](https://www.richmondfed.org/-/media/richmondfedorg/publications/research/working_papers/2018/pdf/wp18-18.pdf) costs far more than the amount most people budgeted for when they set their retirement savings goals. Medicare was not set up to cover many of these expenses, and neither was traditional medical insurance. So, insurance companies responded with long-term care insurance (“LTC”) policies LTC insurance is still available, although the product has changed from the early days. Some LTC policies are quite expensive, so they are not the best solution for many people. As LTC policies didn’t fit for all retirees, new ways to cover those expenses appeared. One of those is a 7702 cash value life insurance plan.

### Why traditional long-term care insurance is not for everyone.

There are certain characteristics of traditional LTC insurance that makes it less desirable for some people. These characteristics are:

* **High premiums:** Even the lowest [average annual premium cost](https://www.aaltci.org/long-term-care-insurance-rates/) for a couple in their fifties is over $3,000. Higher cost premiums for that same couple can exceed $8,000. Assuming 20 years of premium payments, that could be more than $150,000 out of pocket. Depending on the type of policy and the ultimate needs of the policyholder, those premium payments may be lost.
* **As with any insurance product, there is a reluctance to pay high premiums today to cover an undetermined future expense:** If you're young and healthy, the need for catastrophic medical care in old age is just too far away and too unknown to motivate buying an expensive LTC policy. This is especially true when experience has shown that the issuer may be [long gone](https://www.forbes.com/sites/howardgleckman/2019/07/03/sales-of-traditional-long-term-care-insurance-policies-continue-to-fall/?sh=33989c7f161d) before the buyer ever experiences a need for the policy.
* **Uncertainty about what LTC covers:** Consumers are often confused about [what costs Medicare and Medicaid cover](https://aspe.hhs.gov/basic-report/federal-role-consumer-protection-and-regulation-long-term-care-insurance#barriers). This confusion often results in a reluctance to purchase additional coverage when they don't understand the need. Given the potential high costs of traditional LTC insurance and long-term care itself, clearly explained alternatives are necessary.

### 7702 Cash Value Life Insurance policy: An alternative to traditional LTC insurance

There are other ways to create or save assets for your long-term care without purchasing LTC insurance. One alternative is a 7702 Cash Value Life Insurance policy.

[Section 7702](https://www.law.cornell.edu/uscode/text/26/7702) of the Internal Revenue Code defines the requirements for a life insurance policy to retain its tax-advantaged benefits. Ensuring that a policy meets these standards is an area where a retirement professional, like [[Company](https://fta-ria.com/solutions/) Name], can help.

A few notable characteristics of this alternative to LTC insurance include:

* You must pay for the policy with post-tax dollars. In other words, you can't buy it with tax-qualified retirement assets.
* The policy's cash value must grow tax-deferred.
* Virtually ALL cash value life policies written today comply with Section 7702.
* A Section 7702 cash value life insurance policy is just what it says: a life insurance policy that builds a cash value (whole life, not term life), meeting the tax-advantaged requirements of Internal Revenue Code Section 7702.

### Using cash value life insurance for LTC

The 7702 cash value life insurance policy offers several ways to cover potential long-term care expenses. Further, the regular life insurance features of the policy remain in place if the long-term care aspect is never utilized.

A retirement specialist like [Company Name] can help you determine whether this is right for you. You can access this built-up value for long-term care through:

* **Catastrophic illness provisions of some life policies.** Many cash value policies are now offering [riders](https://www.investopedia.com/terms/c/catastrophic-illness-insurance.asp#:~:text=Catastrophic%20illness%20insurance%20is%20a%20type%20of%20coverage,which%20is%20focused%20on%20the%20specific%20health%20risk.) that provide for full or partial payment of the benefit in the event of a catastrophic illness. This rider permits the living insured to access the funds when needed rather than leave them to an heir.
* **Interest-free loans.** Most cash-value life insurance policies have a provision for interest- and tax-free loans against the policy's cash value. The policy terms usually set the percentage of the value that you can borrow. Any unpaid balance is simply deducted from the payable benefits at the time of the insured's death.
* **Cash-in provision.**This allows for a surrender of the policy for its cash value (and then losing the existing life insurance), providing cash in case of LTC needs.
* [**Viatical arrangements**](https://acl.gov/ltc/costs-and-who-pays/who-pays-long-term-care/using-life-insurance-to-pay-for-long-term-care)**.**If available, these allow for the sale of the policy for some percentage of its face amount in the event of a terminal illness meeting regulatory and policy [requirements](https://www.investor.gov/introduction-investing/investing-basics/glossary/viatical-settlements).

### How a 7702 policy could be better than LTC insurance

The benefits of a 7702 cash value policy versus long-term care insurance include:

* **Costs can be** [**significantly less**](https://uphelp.org/life-insurance-vs-long-term-care-insurance-which-do-you-need/) **and more in your control.**LTC insurance can be expensive, especially if the buyer is older or has experienced certain declines in health.
* **You have access to funds if and when needed; otherwise, they become an asset to heirs.**LTC premiums are comparable to term life premiums. If you don't make a claim, the issuing insurance company generally keeps the premium. [Riders](https://uphelp.org/life-insurance-vs-long-term-care-insurance-which-do-you-need/) providing for some return of the premium are available from some issuers, but they are expensive.
* **Loans are tax-free.** Generally, all cash value life insurance policies allow the owner to take [tax-free loans](https://uphelp.org/life-insurance-vs-long-term-care-insurance-which-do-you-need/) against the cash value of the policy. If they don't repay the loan by the time the insured dies, they simply deduct the balance from the payable benefit under the plan. There is nothing comparable to this in the typical LTC policy. Of course, if you really need the benefits, then this is not a great option.

### Learn more

Getting old is hard and expensive, even though the alternative continues to be much less desirable. However, don't simply rely on traditional long-term care insurance, which is expensive and liable to disappear as it is.

Instead, consider working with a professional like [COMPANY NAME] to find one of the cash value life insurance policy alternatives to long-term care insurance coverage. To learn more, [contact us](https://fta-ria.com/contact/) today.

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