

HOUSE BILL REPORT

HB 2306

*As Reported By House Committee on:
Financial Institutions & Insurance*

Title: An act relating to life insurance for the benefit of certain tax exempt organizations.

Brief Description: Allowing certain tax-exempt organizations to insure the life of a person.

Sponsor(s): Representative Inslee.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, January 30, 1992,
DPS.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 12 members: Representatives Dellwo, Chair; Zellinsky, Vice Chair; Broback, Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

Staff: John Conniff (786-7119).

Background: The insurance code allows anyone to obtain life insurance covering someone else's life so long as the insurance benefits are payable to the insured or the policyholder's personal representative (e.g. his estate) or to a person having an "insurable interest," as defined by law, in the life of the insured. To have an "insurable interest," the beneficiary must be closely related by blood or law; must have a substantial interest engendered by love and affection; or must have a certain economic interest in the continuing life of the insured. Persons with an insurable interest can purchase a life insurance policy and with limited exceptions, may name anyone the beneficiary of the policy.

Some people purchase life insurance policies and then name a charitable institution as the beneficiary for purposes of making a donation to the charity. However, so long as the insured owner of the policy can change the beneficiary or

the insured's estate can change the beneficiary by later legal challenge, the Internal Revenue Service (IRS) will not permit a charitable tax deduction. The only way to ensure the irrevocability of a donation of life insurance benefits to a charitable institution is to permit the charitable institution which does not ordinarily have an insurable interest in the insured's life to become both the beneficiary and the policy owner; since, only the policy owner can change the designated beneficiary.

Summary of Substitute Bill: Subject to rules adopted by the Insurance Commissioner, nonprofit organizations that have been in existence for at least five years and that have been established exclusively for religious, charitable, scientific, literary, or educational purposes may jointly apply with a donor to obtain a life insurance policy naming the nonprofit organization as beneficiary and owner of the policy insuring the donor's life. A donor may also transfer a life insurance policy to a nonprofit organization. The commissioner may grant exceptions to the requirement that a nonprofit organization be in existence for more than five years.

Substitute Bill Compared to Original Bill: Rather than grant charitable organizations an insurable interest in the lives of donors, procedures are established to permit a donor to transfer the ownership interest in a life insurance policy.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: Many people donate the benefits of a life insurance policy to nonprofit organizations, particularly to state universities. Unless state law governing the ability of an insured to transfer ownership of a life insurance policy to a nonprofit organization is changed, universities and other charitable organizations will lose needed contributions and policyholders will lose tax deductions.

Testimony Against: None.

Witnesses: (Pro) Dan Koch, Life Underwriters; Mike Carrico, Washington State Bar Association; Henry Nielsen, Chartered Life Underwriter; and Sharon Foster, YMCA.