

HOUSE BILL REPORT

SSB 6241

*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 nonprofit organizations to insure the life of a person.

Sponsor(s): Senators von Reichbauer, Moore and Newhouse.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, February 27, 1992,
DP.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *Do pass.* Signed by 12 members:
Representatives Dellwo, Chair; Zellinsky, Vice Chair;
Broback, Ranking Minority Member; Mielke, Assistant Ranking
Minority Member; Anderson; Dorn; Inslee; R. Johnson;
R. Meyers; Paris; Schmidt; and Scott.

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 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.

Fiscal Note: Not requested.

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

Testimony For: Because of an unfavorable IRS letter opinion, many legitimate donations of life insurance benefits to charitable and educational institutions are in jeopardy. This legislation corrects problems that might result in loss of donations to these institutions.

Testimony Against: None.

Witnesses: (Pro) Michael Carrico, Washington State Bar Association; and Henry C. Nielsen, American Society of Chartered Life Underwriters.