

AMENDED IN ASSEMBLY MAY 12, 2003

AMENDED IN ASSEMBLY MAY 1, 2003

CALIFORNIA LEGISLATURE—2003–04 REGULAR SESSION

ASSEMBLY BILL

No. 226

Introduced by Assembly Members Vargas , Koretz, and Lieber

January 29, 2003

An act to amend Section 10110.1 of, and to add Section 10110.4 to, the Insurance Code, relating to life insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 226, as amended, Vargas. Life insurance: corporate-owned policies.

Existing law generally regulates the issuance and terms of life insurance policies. Existing law provides that an employer has an insurable interest in the life of an employee.

This bill would prohibit an insurer from issuing or delivering a life insurance policy that is purchased by a California employer, that designates the employer as the beneficiary of the policy, and that insures the life of a California resident who is the employer's current or former *nonexempt* employee and who meets other specified criteria. The bill would provide that policies prohibited by the bill that are purchased on or after the effective date of the bill are void. It would allow policies purchased prior to the effective date of the bill *insuring the lives of nonexempt employees* to remain in effect until the next ~~policy renewal~~ *premium payment* date, at which time they would become void, unless they fall within a specified exception for single premium policies.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 10110.1 of the Insurance Code is
2 amended to read:

3 10110.1. (a) An insurable interest, with reference to life and
4 disability insurance, is an interest based upon a reasonable
5 expectation of pecuniary advantage through the continued life,
6 health, or bodily safety of another person and consequent loss by
7 reason of that person’s death or disability or a substantial interest
8 engendered by love and affection in the case of individuals closely
9 related by blood or law.

10 (b) An individual has an unlimited insurable interest in his or
11 her own life, health, and bodily safety and may lawfully take out
12 a policy of insurance on his or her own life, health, or bodily safety
13 and have the policy made payable to whomsoever he or she
14 pleases, regardless of whether the beneficiary designated has an
15 insurable interest.

16 (c) Except as provided in Section 10110.4, an employer has an
17 insurable interest, as referred to in subdivision (a), in the life or
18 physical or mental ability of any of its directors, officers, or
19 employees or the directors, officers, or employees of any of its
20 subsidiaries or any other person whose death or physical or mental
21 disability might cause financial loss to the employer; or, pursuant
22 to any contractual arrangement with any shareholder concerning
23 the reacquisition of shares owned by the shareholder at the time of
24 his or her death or disability, on the life or physical or mental
25 ability of that shareholder for the purpose of carrying out the
26 contractual arrangement; or, pursuant to any contract obligating
27 the employer as part of compensation arrangements or pursuant to
28 a contract obligating the employer as guarantor or surety, on the
29 life of the principal obligor. The trustee of an employer or trustee
30 of a pension, welfare benefit plan, or trust established by an
31 employer providing life, health, disability, retirement, or similar
32 benefits to employees and retired employees of the employer or its
33 affiliates and acting in a fiduciary capacity with respect to those
34 employees, retired employees, or their dependents or beneficiaries
35 has an insurable interest in the lives of employees and retired



1 employees for whom those benefits are to be provided. The
2 employer shall obtain the written consent of the individual being
3 insured.

4 (d) An insurable interest shall be required to exist at the time the
5 contract of life or disability insurance becomes effective, but need
6 not exist at the time the loss occurs.

7 (e) Any contract of life or disability insurance procured or
8 caused to be procured upon another individual is void unless the
9 person applying for the insurance has an insurable interest in the
10 individual insured at the time of the application.

11 (f) Notwithstanding subdivisions (a), (d), and (e), a charitable
12 organization that meets the requirements of Section 214 or 23701d
13 of the Revenue and Taxation Code may effectuate life or disability
14 insurance on an insured who consents to the issuance of that
15 insurance.

16 (g) This section shall not be interpreted to define all instances
17 in which an insurable interest exists.

18 SEC. 2. Section 10110.4 is added to the Insurance Code, to
19 read:

20 10110.4. (a) Except as allowed in subdivision (c), an insurer
21 may not issue or deliver a corporate-owned life insurance policy.

22 (b) “Corporate-owned life insurance policy” means a life
23 insurance policy that is purchased by a California employer, that
24 designates the employer as the beneficiary of the policy, and that
25 insures the life of a California resident who is a current or former
26 employee of the employer.

27 (c) This section does not apply to a policy insuring the life of
28 ~~an~~ *a current or former* exempt employee. An exempt employee is
29 an administrative, executive, or professional employee who is
30 exempt under Section 515 of the Labor Code and the regulations
31 adopted pursuant thereto.

32 (d) Except as provided in subdivision (f), it is a violation of
33 public policy for a California employer to purchase or hold a
34 corporate-owned life insurance policy.

35 (e) (1) A corporate-owned life insurance policy purchased on
36 or after the effective date of this section is void.

37 (2) Except as provided in subdivision (f), a corporate-owned
38 life insurance policy purchased prior to the effective date of this
39 section shall become void on the next ~~policy renewal~~ *premium*
40 *payment* date.



1 (f) A single premium corporate-owned life insurance policy
2 purchased prior to the effective date of this section *that insures the*
3 *life of a current or former nonexempt employee* shall continue in
4 force after the effective date of this section. However, an employer
5 who has purchased and holds a single-premium corporate-owned
6 life insurance policy shall disclose in writing to the current or
7 former employee whose life is insured by the policy, within 90
8 days of the effective date of this section, all of the following
9 information:

- 10 (1) The existence of the corporate-owned life insurance policy
- 11 on the life of the employee.
- 12 (2) The identity of the insurer under the policy.
- 13 (3) The benefit amount under the policy.
- 14 (4) The name of the beneficiary under the policy.

