
By: ~~Senators Kelley, Astle, Exum, Hafer, Hooper, and Klausmeier~~
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Assigned to: Finance

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Senate action: Adopted

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CHAPTER _____

1 AN ACT concerning

2 **Life Insurance - Insurable Interests - Trustees, Partnerships, Limited**
3 **Partnerships, and Limited Liability Companies**

4 FOR the purpose of providing that the trustee of a trust has an insurable interest in
5 the life of an individual insured under a life insurance policy owned by the trust
6 or the trustee of a trust if, on the date on which the policy is issued, certain
7 conditions are met; providing that a partnership, limited partnership, or limited
8 liability company has an insurable interest in the life of an individual insured
9 under a life insurance policy owned by the partnership, limited partnership, or
10 limited liability company if, on the date on which the policy is issued, certain
11 conditions are met; providing that this Act shall apply to all trusts existing
12 before, on, or after a certain date, regardless of the effective date of a certain
13 governing instrument, but only as to certain life insurance policies; and
14 generally relating to insurable interests in the life of an individual insured
15 under a life insurance policy.

16 BY repealing and reenacting, with amendments,
17 Article - Insurance
18 Section 12-201(b)
19 Annotated Code of Maryland
20 (2003 Replacement Volume and 2005 Supplement)

21 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
22 MARYLAND, That the Laws of Maryland read as follows:

Article - Insurance

12-201.

(b) (1) With reference to personal insurance, an insurable interest includes only the interests described in this subsection.

(2) (i) For individuals related closely by blood or law, a substantial interest engendered by love and affection is an insurable interest.

(ii) For the prospective parent of a prospective adoptive child, an insurable interest exists in the life of the child as of the date of the earlier of:

1. a placement for adoption, as defined in § 5-301 of the Family Law Article, provided that:

A. any consents required under § 5-311 of the Family Law Article have been given; or

B. a decree awarding guardianship has been granted under § 5-317 of the Family Law Article; or

2. an interlocutory or final decree of adoption.

(3) For persons other than individuals closely related by blood or law, a lawful and substantial economic interest in the continuation of the life, health, or bodily safety of the individual is an insurable interest but an interest that arises only by, or would be enhanced in value by, the death, disablement, or injury of the individual is not an insurable interest.

(4) (i) This paragraph applies only to employees with respect to whom the corporate employer or an employer sponsored trust for the benefits of employees is the beneficiary under an insurance contract, if the employer is:

1. a private corporation; or

2. a public corporation, the stock of which is traded on a recognized stock exchange or traded in accordance with the National Association of Securities Dealers Automated Quotation (NASDAQ) Systems.

(ii) A lawful and substantial economic interest exists in:

1. a key employee of a private corporation or a public corporation described in subparagraph (i) of this paragraph; and

2. a nonkey employee of a public corporation described in subparagraph (i) of this paragraph if:

A. the employee has been employed by the public corporation for at least 12 consecutive months and consents in writing to the insurance contract;

and

1 B. the amount of insurance coverage on the nonkey employee
2 does not exceed an amount commensurate with employer-provided benefits.

3 (5) (i) This paragraph applies only to a contract or option for the
4 purchase or sale of:

- 5 1. an interest in a business partnership or firm; or
- 6 2. stock shares, or an interest in stock shares, of a close
7 corporation.

8 (ii) An individual party to a contract or option described in
9 subparagraph (i) of this paragraph has an insurable interest in the life of each
10 individual party to the contract or option.

11 (iii) The insurable interest specified in subparagraph (ii) of this
12 paragraph:

- 13 1. is only for the purposes of the contract or option; and
- 14 2. is in addition to any other insurable interest that may
15 exist on the life of an individual party to the contract or option.

16 (6) THE TRUSTEE OF A TRUST HAS AN INSURABLE INTEREST IN THE
17 LIFE OF AN INDIVIDUAL INSURED UNDER A LIFE INSURANCE POLICY OWNED BY THE
18 TRUST OR THE TRUSTEE OF A TRUST IF, ON THE DATE ON WHICH THE POLICY IS
19 ISSUED:

20 (I) THE INSURED IS:

- 21 1. THE GRANTOR OF THE TRUST;
- 22 2. AN INDIVIDUAL RELATED CLOSELY BY BLOOD OR LAW TO
23 THE GRANTOR; OR
- 24 3. AN INDIVIDUAL IN WHOM THE GRANTOR OTHERWISE HAS
25 AN INSURABLE INTEREST; AND

26 (II) THE LIFE INSURANCE PROCEEDS ARE PRIMARILY FOR THE
27 BENEFIT OF TRUST BENEFICIARIES HAVING AN INSURABLE INTEREST IN THE LIFE
28 OF THE INSURED.

29 (7) A PARTNERSHIP, LIMITED PARTNERSHIP, OR LIMITED LIABILITY
30 COMPANY HAS AN INSURABLE INTEREST IN THE LIFE OF AN INDIVIDUAL INSURED
31 UNDER A LIFE INSURANCE POLICY OWNED BY THE PARTNERSHIP, LIMITED
32 PARTNERSHIP, OR LIMITED LIABILITY COMPANY IF, ON THE DATE ON WHICH THE
33 POLICY IS ~~ISSUED~~:

34 (⊕) ISSUED, SUBSTANTIALLY ALL OF THE OWNERS OF THE
35 PARTNERSHIP, LIMITED PARTNERSHIP, OR LIMITED LIABILITY COMPANY ARE:

1 ~~1-~~ (I) THE INSURED;

2 ~~2-~~ (II) INDIVIDUALS RELATED CLOSELY BY BLOOD OR LAW

3 TO THE INSURED; OR

4 ~~3-~~ (III) ~~INDIVIDUALS~~ PERSONS HAVING AN INSURABLE

5 INTEREST IN THE LIFE OF THE INSURED; ~~OR,~~

6 ~~(H)~~ ~~THE PARTNERSHIP, LIMITED PARTNERSHIP, OR LIMITED~~

7 ~~LIABILITY COMPANY OTHERWISE HAS AN INSURABLE INTEREST IN THE LIFE OF THE~~

8 ~~INSURED.~~

9 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall apply to all

10 trusts existing before, on, or after June 1, 2006, regardless of the effective date of the

11 governing instrument under which the trust was created, but only as to life insurance

12 policies that are in force and for which the insured is alive on or after June 1, 2006.

13 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect

14 June 1, 2006.