## **Sponsor Statement**

## An Act Relating to Insurable Interests for Life Insurance Policies

For many years, individuals have relied on life Insurance in helping to meet their financial, business, and estate planning needs. Often, their needs are best served by having one or more life insurance contracts held in an irrevocable trust, partnership, or limited liability company. In particular, irrevocable life insurance trusts have been widely used throughout the United States to own life insurance policies, not only because such trusts can customize the administration of policies and the distribution of proceeds to the particular circumstances and needs of the insured person's family and other beneficiaries, but also because such trust provide a vehicle which, under the Internal Revenue Code, can be used to remove the proceeds from the insured's taxable estate.

However, a relatively recent federal court case (Chawla, ex rel Giesinger v. Transamerica Occidental Life Ins. Co., 2005 WL 405405 (E.D. Va. 2005)) had the effect of pointing out that while state insurance statutes typically require purchasers of insurance contracts to have an "insurable interest" in the life or body of the insured, the statutory provisions describing who may have an insurable interest did not specifically include trusts and business entities which are commonly used to purchase and own such policies. This case raised sufficient uncertainty about the status of life insurance trusts that in July, 2010, the Uniform Law Commission approved amendments to the Uniform Trust Code to clarify the situation.

Alaska has previously adopted substantial portions of the Uniform Trust Code. The proposed amendment to AS 21.42.020 is based in large part on the recommended amendments to the Uniform Trust Code, and also clarifies that persons with insurable interests may form business entities for the purposes of purchasing, holding, and administering life insurance contracts. Other states, notably Delaware, have already amended their statutes for these reasons, or are considering such amendments.