



Focus on Insurable Interest

Insurable Interest 101

As a fraternal benefit society, Foresters Financial™ has a unique mission. This unique mission is only possible if you follow some specific rules about who is insured, who is the owner and who is the beneficiary. It all begins with the concept of insurable interest¹.

**For more information call:
Foresters Sales Desk
866-466-7166, Option 1**

In addition to insurable interest, all Foresters certificate beneficiaries must also meet the Foresters fraternal requirements.

What is Insurable Interest?

Although there are variations under State Insurance Codes, insurable interest generally refers to:

an interest based upon a reasonable expectation of pecuniary advantage through the continued life, health and bodily safety of another person, and, consequently, loss by reason of their death or disability; or a substantial interest engendered by love and affection if closely related by blood or by law. Society of Actuaries²

The principle of insurable interest is that a person or organization can obtain an insurance policy on the life of another person if the person or organization obtaining the insurance values the life of the insured more than the amount of the policy. In this way, insurance can compensate for loss due to death rather than be a motivator for causing death.

Who has an insurable interest in your life?³

A person is considered to have an unlimited interest in his or her own life. Beyond one's own insurable interest, the law decides which kinds of family relationships have an insurable interest. The insurable interest of family members is assumed to be emotional as well as financial. Husbands/wives have an insurable interest in their spouse, and children have an insurable interest in their parents (and vice-versa).

Brothers/sisters and grandchildren/grandparents are also generally assumed to have an insurable interest in the lives of those relatives⁴.

Family relationships that create Insurable Interest

Yes	Not Necessarily ⁵
Spouse/ Life Partner	Aunt or Uncle
Child	Cousin
Parent/ In Loco Parentis	Brother- or Sister-in-Law
Sibling	Niece or Nephew
Grandparent (upon review)	Son- or Daughter-in-Law
Grandchild	Stepchild
	Stepparent

Interpretation and regulation of insurable interest varies by state. Often, it comes down to the specific facts of the proposed application for insurance.

What do you think – Insurable Interest?

Let's look at an example of how insurable interest works in practice. In this scenario, a man and a woman who are not married and who live separately in Florida, have a 3-year-old daughter. The father provides monthly support. The mother wants to take out life insurance on the Dad.

Scenario 1 - no insurable interest

Payor and Owner: Mom
Insured: Dad
Beneficiary: Mom

Under Florida law, the mother does not have insurable interest in the life of the father because he is not her spouse. But, the child, as a dependent, does have an insurable interest in her father. To apply for Foresters life insurance, the daughter – even though she is a minor – may be named as the primary beneficiary. Naming the child or a trust for the benefit of the child meets the insurable interest requirements and also meets the fraternal requirements. It's important to note that state laws usually regulate how payments to minors are to be addressed – i.e. in the event the father dies and the proceeds are payable while the child is a minor. Therefore, it may be more advantageous and much more aligned with the purpose for the insurance to name the beneficiary a trust for the benefit of the minor.

Scenario 2 - insurable interest

Payor and Owner: Mom
Insured: Dad
Beneficiary: Daughter

Although naming the minor daughter as beneficiary meets both the insurable interest and the fraternal requirements, having three parties named to a life insurance may cause a "gift" of the proceeds if the Owner predeceases the Insured. Clients should consult their tax advisor.

For examples of insurable interest and fraternal requirements, see **Focus on Beneficiaries**

¹ At Foresters, to have a valid beneficiary designation, in addition to having an insurable interest in the insured's life, the beneficiary must also meet the Foresters Fraternal guidelines. See Putting the spotlight on Beneficiaries.

² Kevin Oldani, "You Bet Your Life: Insurable Interest in Life Insurance," found at Wikipedia website. Accessed June 20, 2018.

³ In addition to family members, there may be others who have an insurable interest, under state law, in your life. A common example is a business partner, a creditor, etc. At Foresters, in these scenarios, the designated beneficiary would still need to benefit the insured and/or his/her dependents.

⁴ Cousins, nieces/nephews, aunts/uncles, stepchildren/stepparents and in-laws cannot buy insurance on the lives of others related by these connections.

⁵ The Insurable Interest in a Life Insurance Policy" (HTML). Life Insurance Law. Free Advice. 1995-2009. http://law.freeadvice.com/insurance_law/life_insurance_law/insurable-interest-life-insurance.htm. Retrieved on June 20, 2018.

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