

June 1, 2009

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative related to life insurance (A.G. File No. 09-0009).

Proposal

Under current law, proceeds from life insurance policies that employers take out on their employees are not counted as taxable income. This measure removes this exemption in cases where an insured employee no longer works for the employer at the time of death. Specifically, the proposal removes the exemption for life insurance proceeds under the following circumstances:

- The employee's death or disability would not result in any financial loss to the employer.
- The employee no longer worked for the employer.
- The employee retired from the employer.

The initiative, however, would maintain the existing exemption for charitable organizations.

Fiscal Effects

By removing the life insurance tax exemption, taxable income and state revenues would increase. We estimate that any General Fund revenue gains from this measure in any year would be relatively small. Data are not available on California employers' life insurance payouts or the fraction of covered employees who no longer work there. The State Department of Insurance advises, however, that employers typically terminate an employee's policy as soon as the employee stops working for them. Cases where a former employee dies while still covered by an insurance policy, therefore, should be very rare. Given that most employers end insurance coverage of employees when they ter-

minate employment, the increase in revenues from this change in any one year could be minimal. In some years, however, higher revenues could total several million dollars.

Summary of Fiscal Effect. The measure would have the following major fiscal effect:

- State revenue increases of up to several millions of dollars from higher business income taxes in some years.

Sincerely,

Mac Taylor
Legislative Analyst

Michael C. Genest
Director of Finance