Estate of Max J. Gorby, Deceased, Jack Gorby and Jack Dinnerstein, Coexecutors, Petitioners v. Commissioner of Internal Revenue, Respondent, 53 T. C. 80 (1969)

An insured's assignment of rights under a group life insurance policy is valid if permitted by the master policy, despite contrary provisions in the individual certificate.

Summary

Max J. Gorby attempted to assign his rights under two group life insurance policies to his wife before his death. Although the individual certificates issued to him prohibited assignment, the master policies allowed it. The Tax Court held that under California law, the master policies governed, and Gorby's assignments were effective. Consequently, the insurance proceeds were not includable in his estate under IRC section 2042(2), as he had divested himself of all incidents of ownership. This case underscores the importance of the master policy's terms in determining the validity of assignments in group life insurance contexts.

Facts

Max J. Gorby was insured under two group life insurance policies, one from Union Central Life Insurance Co. and another from Manhattan Life Insurance Co. , both taken out by his employer, California Marine Curing & Packing Co. and its affiliate. The Union policy allowed assignment under specific conditions, while the Manhattan policy's assignment prohibition was deleted by endorsement. Gorby attempted to assign his rights under both policies to his wife, Serena, before his death. The individual certificates he received, however, contained provisions that prohibited assignment.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Gorby's estate tax, arguing that the insurance proceeds should be included in his gross estate because he retained incidents of ownership. Gorby's estate contested this determination before the U. S. Tax Court, which heard the case and issued its decision on October 27, 1969.

Issue(s)

1. Whether the provisions of the master group life insurance policies permitting assignment prevailed over the nonassignment clauses in the individual certificates issued to Gorby?

2. Whether Gorby's right to convert the group coverage into individual life insurance policies was assignable under California law?

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Holding

1. Yes, because under California law, the master policy constitutes the entire contract and its provisions allowing assignment under specific conditions prevailed over the individual certificates' nonassignment clauses.

2. Yes, because the right to convert the group coverage into individual life insurance policies was assignable under California law, and Gorby's assignments were effective in divesting him of all incidents of ownership.

Court's Reasoning

The Tax Court's decision hinged on California law, which generally favors the assignability of life insurance policies unless explicitly prohibited by the policy itself. The court noted that both master policies allowed assignment: the Union policy under certain conditions, and the Manhattan policy after the deletion of its nonassignment clause. The court emphasized that the master policies constituted the entire contract of insurance, as mandated by California Insurance Code section 10207(a), and thus governed over the individual certificates' conflicting provisions.

The court rejected the Commissioner's arguments that the certificates' nonassignment clauses should control, citing California's policy of resolving ambiguities in insurance contracts in favor of the insured. The court also dismissed the argument that the right to convert group coverage into individual policies was nonassignable, finding no basis in California law to support such a position.

The court's decision was based on the legal rules established by California law, particularly sections 10129 and 10130 of the Insurance Code, which authorize assignments of life insurance unless the policy expressly provides otherwise. The court applied these rules to the facts, concluding that Gorby's assignments were valid and effective, thus divesting him of all incidents of ownership in the policies.

Practical Implications

This decision clarifies that in group life insurance cases, the terms of the master policy govern over conflicting provisions in individual certificates. Attorneys handling similar cases should focus on the master policy's provisions regarding assignment and conversion rights. The decision also impacts estate planning by confirming that effective assignments can remove life insurance proceeds from an estate's taxable value.

Legal practitioners should ensure that clients understand the importance of the master policy's terms when assigning rights under group life insurance. The ruling may influence insurance companies to ensure consistency between master policies and individual certificates to avoid disputes.

Subsequent cases have cited Estate of Gorby to support the principle that the

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master policy’s provisions on assignability are controlling. This case remains significant in the context of estate tax planning and insurance law, particularly in jurisdictions with similar statutory frameworks.

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