Joyce

Speak

March 4 Wed

ASSOCIATION FOR ADVANCED LIFE UNDERWRITING

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AALU
A CONFERENCE OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

Senator, want to do?
yes /
no /

B

8:00 am

January 16, 1987

TPs

D.C.
J.W. Marriott
Salon #, III
+ IV

OK

By Hand

Honorable Bob Dole
U.S. Senate
141 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator:

We sincerely hope that it will be possible for you to address our Wednesday, March 4, 1987, Annual Meeting breakfast. Your remarks would be scheduled from 8:00 until 8:30 a.m. in Salons II, III and IV of the Grand Ballroom of the J. W. Marriott Hotel, Washington, D.C. If your schedule will permit, please join us for breakfast at 7:00 a.m. There will be an honorarium of $2,000.

I know our members would appreciate your views regarding future legislation affecting the life insurance industry, the life insurance policyholder, retirement income, the treatment of trusts and estates as well as other tax matters affecting the business community.

- approx 800-900 attendees

This will be our 30th Annual Meeting. I can assure you that the audience (composed of approximately 600 Advanced Life Underwriters) would be most receptive to your remarks.

Sincerely,

Vernon

Vernon W. Holleman, Jr., CLU
President

VWH:md

CC: Edwin T. Johnson, CLU
Program Chairman

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2/3 Interim ltr
2/6 Advised Madelyn Julian's sec'y Sen. would do

BOB DOLE
KANSAS

United States Senate
OFFICE OF THE REPUBLICAN LEADER
WASHINGTON, DC 20510-7020

March 3, 1987

M E M O R A N D U M

TO: SENATOR DOLE

FROM: RICH BELAS

SUBJECT: ISSUES FOR MEETINGS WITH INSURANCE AGENTS AND COMPANY CEO'S

In addition to catastrophic health insurance, both agents and company CEO's are concerned about the partial exemption from the Federal antitrust laws provided by the McCarran-Ferguson Act, and the possible Ways and Means agenda on life insurance taxation.

You might want to note that you were active in the partial taxation of Blue Cross/Blue Shield organizations. The major companies and agents actively campaigned for equal treatment between the Blues and the other companies. You can say that it may have been a partial victory for them, but at least it was a step in the right direction--equal treatment for competitors.

The agents will undoubtedly still be sensitive about the repeal of the deduction for interest paid on policyholder loans on corporate-owned life insurance. They may refer to this as "key man" insurance.

Although it might be best not even to bring the issue up, if pressed, you might want to note that, unlike Senator Packwood's provision to eliminate the deduction for interest paid on policyholder loans on individually-owned policies, your amendment grandfathered all existing policies.

You also might want to note your efforts to make the effective date even more prospective in nature. At one point you publicly stated that you favored making the provision effective July, 1987, but Chairman Rostenkowski took a personal interest in the provision and refused to move the effective date from date of Senate action.

Mr. Rostenkowski also entered a statement in the Record contradicting colloquies between you and Senator Packwood on this issue. The Ways and Means staff has told me that Mr. Rostenkowski has no interest in revisiting the issue, although, if the agents take too limited an interpretation of the provision, he might put some pressure on the IRS to be tough on the regulations.

Sheila asked me to mention that Senator Grassley called to say that Cleo Edwards of Cedar Rapids should be in the audience at the AALU event. He is leaning toward you, but still is unhappy about the corporate-owned life insurance provision. Senator Grassley suggested that you might want to remind the agents of your efforts to be flexible on the provision last year.

McCarran-Ferguson

The McCarran-Ferguson Act provides generally that the states have the responsibility for regulation of the insurance business. Senator Metzenbaum has introduced legislation (S. 80) to repeal the McCarran-Ferguson Act, and, last month, he held a hearing on the bill in his Judiciary subcommittee on antitrust.

At the hearing, there was support from the bill from some small business and consumer groups who argued that the McCarran-Ferguson Act was at least partially responsible for the liability/insurance availability crisis.

Many in the insurance industry are very concerned about the possibility that Senator Metzenbaum's bill might go somewhere. While some of the largest companies who sell in every state might be able to adapt to Federal regulation, smaller companies who only have to subject themselves to a small number of state regulators consider Federal regulation to be disastrous.

They are used to state regulation and do not believe that repeal of the McCarran Ferguson Act will have any beneficial impact on the "insurance crisis".

Some in the insurance industry believe that the threat of McCarran-Ferguson repeal is retribution for urging tort reform in the last Congress. You might want to note that you undertand that the McCarran-Ferguson Act only provides a limited exception from the antitrust laws that does not apply to boycotts, coercion or intimidation. Nor does it provide insurance companies immunity from state antitrust laws. I think it is fair to say that repeal of McCarran-Ferguson is not going to solve the liability crisis.

Ways and Means Committee

The Ways and Means Subcommittee on Select Revenue Measures has been referred several insurance tax issues. Among the issues are industry "segment balance" and single premium life insurance.

"Segment balance" refers to the relative tax burden on stock and mutual life insurance companies. This is a truly no-win issue which may generate substantial industry infighting.

Because of the concern that the 1984 tax legislation would not raise the right level of income from both stock and mutual companies, the Treasury Department was instructed in the 1984 legislation to study the impact of the new law and report to Congress on January 1, 1989. An interim report is due in 1987.

Single premium life insurance is now being sold by some companies primarily as a vehicle to generate tax-free investment earnings, with life insurance protection as a secondary purpose. The Ways and Means tax staff distributed the attached advertisement from Fortune as an example of the potential abuse. The company involved is a subsidiary of the Equitable which has forced the subsidiary to terminate the ad campaign.

I understand that T. M. Murrell's American Investors Life is also very aggressive in this market.

In any event, I have spoken to both the majority and minority staffs at the Finance Committee and there seems to be little interest in initiating any hearings or legislation there.

I have attached some short talking points.

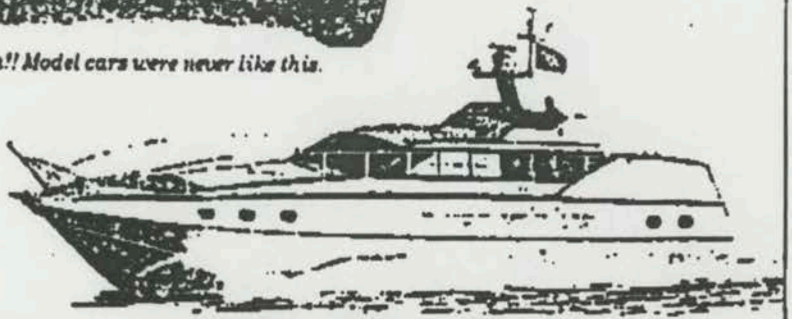
All Life Insurance Lets You Provide For Your Children. Ours Lets You Buy Toys Of Your Own.

Toy pianos are fine for three-year-olds. But we can help you get one that's really grand.

Vrooom!! Model cars were never like this.

Why settle for being the first kid on the block when you can be the first one over it.

Every kid wants a bike. We'll help you get one that's just your size.



Don't take a bath. Get the boat of your dreams.

It's very commendable to provide for your children. But with an Integrity Single Premium Life insurance policy, you can provide for yourself.

How is it possible?

Simple. You pay your premium in one single payment. From that instant, your money grows substantially. As long as your policy is in force, all gains are completely tax-deferred.

A loan with real interest—it's free.

If you wish to borrow against your policy, you can do it at a cost that nets out to zero. You suffer no adverse tax consequences. And you never have to pay back any of the money (although your loan does affect the amount of your death benefit or cash surrender value).

Here's even more insurance.

It's risk free! Your principal and interest are guaranteed against loss by contract with Integrity Life. And they're *always* available to you (less, of course, any surrender charges where applicable).

Now that you know that, why toy around with ordinary insurance?

For more information on Single Premium Life* and other Integrity products, send us the coupon or call 1-800-241-0025, 9 A.M.-9 P.M. Seven days a week.

Integrity Life Insurance Company, Phoenix, Az.

**Not available in all states. Single Premium Life is a Single Premium Endowment at age 95 plan.*

I want to know more about Single Premium Life and other Integrity products. Please send me more complete information. I understand there is no obligation.

Name ____________________

Address ____________________

City __________ State __________ Zip ______

Telephone ____________________

Integrity Financial Services, [illegible] Commerce Rd., Stamford, CT 06904

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[illegible] Integrity

INSURANCE TALKING POINTS

McCarran-Ferguson Act

- Senator Metzenbaum has introduced legislation to repeal the McCarran-Ferguson Act, and hearings have been held in the Judiciary Committee.

- I am not sure what the motivation is, but I am not at all convinced that this would resolve the liability crisis. On the other hand, repeal would cause substantial disruption in the industry. I don't see how that would be in the consumers' interest.

Ways and Means

- I understand the Select Revenues Subcommittee may hold hearings on a number of hearings on insurance tax issues.

- Among the issues is the so-called "segment balance" between stock and mutual companies and the tax treatment of single premium life insurance contracts.

- We asked the Treasury Department to review how the 1984 Act actually works in taxing companies. If changes are necessary, I would have no problem in addressing them. But I don't see any reason to act before we have enough tax return information to be sure what we are doing is correct. That is why we asked the Treasury Department to report to the Congress in 1989.

- On the single premium life insurance issue, I would say that some recent advertisements have drawn attention of the Ways and Means Committee. However, we made significant efforts in drafting a definition of what qualifies as life insurance for tax purposes in 1982, and we tightened those rules in 1984. I would have to be convinced that we did not do a good enough job in two tries before I would be interested in going through the exercise one more time.

Blue Cross/Blue Shield

- One bright spot in last year's tax bill was that we tried to even the playing field between the Blues and their competitors. It was not a perfect response to the problem, but at least it was a step in the right direction.

- I certainly do not have anything against Blue Cross and Blue Shield, but they should not have a tax advantage over companies who have to compete directly with them.

Key Man Insurance

- I am sure some of you are still sensitive about the corporate-owned life insurance provision in last year's tax bill.

- As many of you know, I worked to make the provision more prospective in nature, but Chairman Rostenkowski just would not budge on the effective date. He also disagreed with statements made by Senator Packwood and myself on how the provision should be interpreted. Given his stand, it is not very likely that there will be an opportunity to make any major changes in the law.

TALKING POINTS

CATASTROPHIC HEALTH INSURANCE

THE PROBLEM

- 120,000 elderly citizens currently enrolled in the medicare program spend greater than $2000 out-of-pocket on acute medical care costs. One in five medicare recipients depends solely on medicare and has neither a supplemental policy nor qualifys for medicaid.

- While many elderly have protected themselves from the threat of financial ruin from extended hospitalizations, too many are still at risk of financial devastation. Unfortunately, many of those do not even know they are uncovered.

- Equally alarming, 37 million Americans in this country have absolutely no insurance. Three quarters of the uninsured are dependents of workers.

THE ADMINISTRATION

- Last year, the President expressed his commitment to work toward a solution to the problem of availability of catastrophic health insurance.

- Recently, the President announced his plan for those over 65. That proposal, which was recently submitted to Congress, adds catastrophic health insurance coverage to the medicare benefit and finances the program by increasing the Part B premium by $5 per month.

- For those under 65, a variety of state options are being explored. Long term care insurance may to be encouraged through tax deferred private savings but the White House has yet to complete this aspect of their plan.

THE CONGRESS

- The House has begun to hold hearings on catastrophic health insurance. The Kennedy-Stark bill is being replaced by a Stark-Gradison bill. They recently outlined the initial components of their plan which includes a $500 Part A and $1500 Part B cap on out of pocket expenditures. The financing is to be accomplished by taxing the actuarial value of the medicare benefit ($1800).

- The Senate Budget Committee held the first hearing to begin to explore options. The Labor and Human Resources Committee held hearings on Health Care Goals and Senator Kennedy dropped in his bill on January 6. The Senate Finance Committee held a full committee hearing on January 28. Senator Bentsen indicated that he will be submitting a proposal in the near future.

DOLE INITIATIVES

- I introduced my first catastrophic health insurance bill with Senator Danforth and Senator Dominici in 1979. That bill proposed to build upon the private insurance market and had three major principles:

  First, those eligible for Medicare would be protected by expansion of their benefits to include catastrophic health insurance.

  Second, the large majority of the employed would be assured of the availability of adequate private insurance protection.

  Third, those who are part of the remaining market, and not already covered, could choose to have the federal government serve as a facilitator and, in some instances, a financial back-up, in contracting with private insurance companies for catastrophic coverage.

- A lot has occurred since then yet those principles, to a large degree, still seem solid.

- I plan to join with a number of my colleagues in seeking to find a solution to our current problems. First, we will turn our attention to catastrophic health insurance coverage for those on medicare. Our priority is dealing with acute coverage first.

- This does not mean we intend to ignore the issue of long term care. The Senate Finance Committee held its first hearing on this important concern on February 24. It is expected that there will be a series of hearings in the future as well.

- It seems clear that, for the over 65 population, the most cost-effective strategy for providing catastrophic health insurance coverage is through the existing structure of the medicare program. We all seem to agree on that approach.

- However, with respect to those under 65, I truly believe the problem can be dealt with through the private sector.

- For those who are employed, we can do a great deal through the use of incentives for employers and employees so that <u>group</u> health insurance is made available.. But we must be cautious about reversing some of the progress we have made in tax reform.

- Finally, for those with no other access to coverage, one idea which has been raised is the establishment of an insurance pool. This is an idea worth considering.

- Those who are employed but without health insurance, we would also prefer to work through the employer, if possible--however, again, we are concerned about the impact on employment if costs become prohibitive.

- In recent years, more and more "first dollar" coverage has , in part, led us away from the concern about that "last dollar." We need to do a better job of making available insurance that protects that "last dollar" which throws the victims of a catastrophic illness into poverty.