

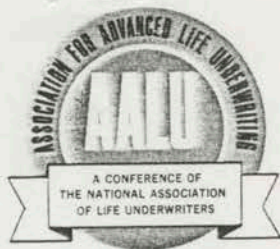
MARCH 3, 1989

TO: SENATOR DOLE
FROM: CAROLYN SEELY
SUBJECT: AALU ANNUAL MEETING

You are scheduled to address the Annual Meeting of the Association for Advanced Life Underwriting (AALU) at 1 p.m. on Monday, March 6, 1989. AALU's membership consists of the life insurance agents who deal with the most sophisticated markets and products. The audience will number close to 1,000 -- 800 AALU members and 100+ assorted guests.

In addition to an assessment of the current budget and tax situation, this audience is concerned about the taxation of single premium life insurance products, Section 89, the overbroad anti-estate freeze rule contained in Section 2036(c) and life insurance company taxation, generally. (A review of the overall tax burden on this industry and of the relative income tax burdens on stock and mutual life insurance companies -- the so-called "segment balance" -- is due to come before this Congress.)

Prior to your speech, the group will have heard from Congresswoman Barbara Kennelly, an industry champion who has, however, defended Section 89 in the past. At breakfast on Tuesday, the speaker will be Senator Bentsen, also an industry supporter; Don Sundquist will talk about politics generally at lunch; and Congressman Archer is speaking on Wednesday.



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January 12, 1989

The Honorable Robert Dole
United States Senate
U.S. Capitol
Washington, DC 20510

Dear Senator Dole:

The Association for Advanced Life Underwriting (AALU),
would like to extend an invitation to you to address
our 32nd Annual Meeting.

The 1989 Annual Meeting will be held at the J.W.
Marriott, March 5 through March 8. We would be most
honored if you would address the group at our afternoon
session on Monday, March 6, at 1:00 p.m. If that time
or date needs any adjustment in order to secure your
appearance, we would be pleased to accommodate your
schedule. Should time permit, please join us for lunch
at noon. Of course, we are pleased to offer the
appropriate honorarium to you or to the charity of your
choice.

As you may know, AALU is a Conference of the National
Association of Life Underwriters (NALU). NALU is the
world's oldest and largest trade association of its
type. It represents more than 137,000 members. AALU
has a select membership of life underwriters who
perform in the more sophisticated insurance markets.
There are 1,400 life underwriters in the United States
who have met AALU's membership requirements and we
estimate that 800 of our members and their spouses will
be attending the Annual Meeting. This meeting provides
a forum for exchanging the latest ideas in the
industry, forecasting trends and hearing the reports of
distinguished speakers from government, industry and
insurance.

1-29-89 Interim letter *

2/6 Advised Mary Sue would do honor
to charity

Copies to Mary Crease Hannagan & on 2-3-89
Interim letter sent to Marshall Wolper,
+ copy attached

It will be a great honor to once again have the benefit of your views. You have spoken to our group on four different occasions and each time our membership survey rates you the highest, most informative speaker over the three days of the meeting. We sincerely hope you can fit us in on what I know must be a hectic schedule. Your agenda is of great importance to our industry and its membership, especially any comments regarding future legislation affecting life insurance policies and our policy holders.

Should you or any members of your staff have additional questions or comments please do not hesitate to contact me or Mary Dreape Hanagan at (202) 331-6082. We look forward to hearing from you.

Sincerely,

A handwritten signature in dark ink, reading "Bill Regan, III". The signature is written in a cursive style with a large, stylized "B" and "R".

William V. Regan, III, CLU
President

TALKING POINTS AALU ANNUAL MEETING -- MARCH 6, 1989

- O THE MOST IMPORTANT ISSUE CONFRONTING THIS
CONGRESS -- ONCE WE GET PRESIDENT BUSH'S
CABINET CONFIRMED -- IS THE BUDGET DEFICIT.

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THE BUSH BUDGET

- O PRESIDENT BUSH HAS MADE GOOD ON HIS

CAMPAIGN PROMISES TO PRODUCE A KINDER AND

GENTLER BUDGET AND TO MEET THE

GRAMM-RUDMAN-HOLLINGS TARGETS WITHOUT

RAISING TAXES. IN ADDITION, THE PRESIDENT HAS

DEVELOPED LONG RANGE STRATEGIES FOR

HANDLING THE SAVINGS AND LOAN CRISIS AND

CLEANING UP NUCLEAR WEAPONS PLANTS.

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O

EVEN WITHIN THE CONSTRAINTS OF AN AUSTERE

BUDGET, THE PRESIDENT HAS FOUND FUNDS FOR

INVESTING IN PEOPLE AS WELL AS TECHNOLOGY. HIS

BUDGET INCLUDES \$400 MILLION FOR NEW

EDUCATION PROGRAMS, \$900 MILLION FOR THE WAR

ON DRUGS, \$400 MILLION IN AID TO THE HOMELESS,

AND RESTORES \$1.7 BILLION IN MEDICAID FUNDS.

(ALL THESE FIGURES ARE INCREASES OVER

PRESIDENT REAGAN'S 1990 BUDGET.)

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O MOREOVER, IN SPITE OF THE CLAIMS MADE BY SOME

DEMOCRATS, THIS BUDGET DOES NOT LEAVE THE

TOUGH CHOICES TO CONGRESS. THE PRESIDENT

HOLDS DEFENSE GROWTH TO THE RATE OF

INFLATION, SIGNIFICANTLY CUTS MEDICARE,

FEDERAL RETIREMENT, AGRICULTURE SUBSIDIES,

AND FEDERAL HEALTH BENEFITS.

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WHY CONGRESS NEEDS TO COME TO THE BARGAINING

TABLE

- O PRESIDENT BUSH'S BUDGET MAY NOT BE ALL THINGS
TO ALL PEOPLE -- NO RESPONSIBLE BUDGET EVER IS
-- , BUT HIS BUDGET IS A SERIOUS, WORKABLE FIRST
STEP. NOW, THE DEMOCRATS NEED TO LAY THEIR
CARDS ON THE TABLE, SO THAT BUDGET
NEGOTIATIONS CAN BEGIN.

-7-

O MOREOVER, AS YET NO DEMOCRAT, NOT EVEN THE
DEMOCRATIC APPOINTEES TO THE NATIONAL
ECONOMIC COMMISSION WHO DISAGREE WITH THE
PRESIDENT, HAS COME UP WITH A CONSTRUCTIVE
ALTERNATIVE. THE DEMOCRATS APPARENTLY
PREFER TO CRITICIZE THE PRESIDENT, RATHER THAN
TAKE PART IN NEGOTIATIONS TO SOLVE THIS
PROBLEM.

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O

IN THE NEXT FEW WEEKS IT WILL BECOME CLEAR

WHETHER THE DEMOCRATS ARE WILLING TO MOVE

FORWARD. IMPORTANT DEADLINES ARE LOOMING:

THE SENATE BUDGET COMMITTEE IS REQUIRED TO

REPORT A BUDGET RESOLUTION BY APRIL 1. WITH A

TWO WEEK EASTER RECESS AT THE END OF MARCH,

ONLY THREE WEEKS ARE LEFT TO COMPLETE THAT

WORK ON TIME.

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O STARTING BUDGET NEGOTIATIONS NOW IS THE ONLY RESPONSIBLE THING TO DO, BECAUSE WHILE WE FIGHT OVER THE BUDGET, SIX YEARS OF SOLID, LOW-INFLATION ECONOMIC GROWTH IS COMING TO AN END.

O IN RESPONSE TO ACCELERATING PRICE GROWTH, THE FEDERAL RESERVE HAS RAISED THE DISCOUNT RATE FOR THE FIRST TIME SINCE AUGUST, 1988, AFFECTING EVERYTHING FROM THE PRIME RATE TO HOME MORTGAGES. THE FINANCIAL MARKETS ARE NERVOUSLY AWAITING A SIGNAL THAT CONGRESS INTENDS TO ACT RESPONSIBLY TO MEET ITS DEFICIT REDUCTION TARGETS WITHOUT A SEQUESTER.

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O SQUABBLING OVER THE BUDGET PREVENTS US FROM

MOVING FORWARD ON THE APPROPRIATIONS

PROCESS, AS WELL AS TACKLING IMPORTANT

PROBLEMS LIKE THE SAVINGS AND LOAN CRISIS. THE

PRESIDENT SHOULD NOT HAVE HIS LEGISLATIVE

AGENDA HELD HOSTAGE BY A CONGRESS THAT

PREFERS TO POINT FINGERS RATHER THAN FACE UP

TO THE TOUGH BUDGET CHOICES.

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TAXES

- O I AGREE WITH THE PRESIDENT THAT TO BALANCE THE BUDGET WE NEED TO LOOK AT SPENDING CUTS AND NOT NEW TAXES. I DO NOT BELIEVE TAX INCREASES ARE A SUBSTITUTE FOR SPENDING RESTRAINT TO REDUCE THE FEDERAL BUDGET DEFICIT.
- O I ALSO BELIEVE THAT KEEPING THE LOWER RATES ENACTED IN 1986 IS VERY IMPORTANT, BOTH AS AN ECONOMIC INCENTIVE AND TO CONVINCE TAXPAYERS THAT OUR TAX LAWS ARE FAIR. IN 1987, I INTRODUCED A RESOLUTION ADOPTED BY THE SENATE THAT WE SHOULD NOT ATTEMPT TO REDUCE THE DEFICIT BY TAMPERING WITH TAX RATES.

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O THE BUDGET PROPOSED BY PRESIDENT BUSH MAKES

GOOD ON HIS CAMPAIGN PROMISES TO MEET THE

GRAMM-RUDMAN-HOLLINGS DEFICIT TARGETS

WITHOUT RAISING TAXES. SOME DEMOCRATS HAVE

INDICATED THAT THE PRICE FOR ENACTING SOME OF

THE PRESIDENT'S PROGRAMS, SUCH AS LOWER

CAPITAL GAINS TAXES, MUST BE INCOME TAX RATE

INCREASES. I BELIEVE THEY WILL FIND THAT

WHEN THE PRESIDENT SAID "NO NEW TAXES", HE

MEANT IT. THAT INCLUDES EXCISE TAXES, AS WELL

AS RATE INCREASES.

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TAXATION OF LIFE INSURANCE PRODUCTS AND

COMPANIES

O AS YOU KNOW, LAST YEAR'S COMPROMISE
LEGISLATION DEALING WITH THE TAXATION OF
SINGLE PREMIUM LIFE INSURANCE WAS VERY
CONTROVERSIAL. ACCORDINGLY, WHILE NO ONE IS
PROPOSING TO REVISIT THAT ISSUE NOW, NEW
SINGLE PREMIUM AND DEFERRED ANNUITY
PRODUCTS WILL UNDOUBTEDLY BE SCRUTINIZED
FOR TAX ABUSE POTENTIAL. AND I WARN YOU THAT
AGGRESSIVE EXPLOITATION OF THE TAX ADVANTAGES
GIVEN TO THESE PRODUCTS COULD PROVIDE THE
EXCUSE FOR FURTHER RESTRICTIVE LEGISLATION.

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O IN ADDITION, THE CONGRESS IS AWAITING THE

RESULTS OF STUDIES EVALUATING THE TAXATION OF

THE LIFE INSURANCE INDUSTRY AND THE RELATIVE

TAX BURDENS OF STOCK AND MUTUAL LIFE

INSURANCE COMPANIES -- THE SO-CALLED

"SEGMENT BALANCE". DURING THIS REVIEW

PROCESS, I HOPE THAT YOUR INDUSTRY WILL BE

ABLE TO OVERCOME SELF-INTEREST SO AS TO

PROVIDE US WITH THE INFORMATION NECESSARY TO

REACH A FAIR RESULT.

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SECTION 89

O IN ADDITION, I KNOW THAT YOU ARE CONCERNED

ABOUT THE ADMINISTRATIVE BURDENS IMPOSED ON

HEALTH AND WELFARE BENEFIT PLANS BY SECTION

89 OF THE INTERNAL REVENUE CODE. I HAVE

RECEIVED LETTERS FROM BUSINESSMEN ACROSS

THE COUNTRY WHO ARE SIMILARLY CONCERNED. IN

MANY CASES, THESE COMPLAINTS ARE JUSTIFIED.

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- O LAST YEAR, I SUPPORTED SUBSTANTIVE CHANGES TO

SIMPLIFY SECTION 89 IN THE TECHNICAL

CORRECTIONS ACT. SEVERAL OF THESE PROVISIONS

WERE DESIGNED SPECIFICALLY TO EASE

COMPLIANCE BURDENS FOR SMALL BUSINESSES.
- O I RECOGNIZE THAT THESE CHANGES ARE NOT

ENOUGH, AND FRANKLY, I WOULD HAVE PREFERRED

TO DO EVEN MORE TO SIMPLIFY THESE RULES.

ACCORDINGLY I HAVE COSPONSORED LEGISLATION

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TO DELAY THE EFFECTIVE DATE OF SECTION 89 TO
GIVE CONGRESS THE TIME TO REVIEW THIS
PROVISION. MY STAFF IS ACTIVELY WORKING WITH
STAFFS OF OTHER FINANCE COMMITTEE MEMBERS
AND INDUSTRY EXPERTS TO TRY TO DEVELOP
WORKABLE TESTS.

- O LONG-AWAITED TREASURY REGULATIONS
INTERPRETING SECTION 89 WERE ISSUED LAST
WEEK. UNFORTUNATELY, OTHER THAN ALLOWING
ADDITIONAL TIME TO BEGIN TESTING, THESE
REGULATIONS DO NOT SIMPLIFY THE SECTION 89
RULES APPLICABLE TO SMALL BUSINESSES OR
PROVIDE CLEAR INSTRUCTIONS FOR COMPLIANCE.

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O INDEED, EVEN THE CHAIRMAN OF THE WAYS AND

MEANS COMMITTEE, WHO HAS REPEATEDLY

DEFENDED SECTION 89 IN THE PAST, HAS NOW

ACKNOWLEDGED THAT THESE RULES NEED

SIMPLIFICATION.

O I HOPE THAT THE FINANCE COMMITTEE WILL STUDY

THIS ISSUE AND DECIDE WHETHER OR NOT THESE

PROVISIONS CAN EVER BE MADE TO WORK FAIRLY

AND EFFECTIVELY. THE AIM OF SECTION 89 -- TO

DENY A FEDERAL TAX SUBSIDY TO DISCRIMINATORY

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BENEFIT PLANS -- IS VALID. BUT, IN MY JUDGMENT,

THE PRICE OF THE CURRENT RULES IN TERMS OF

COMPLEXITY AND BURDENS ON AMERICAN BUSINESS

IS CLEARLY TOO HIGH.

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SECTION 2036(C)

- O I KNOW THAT SOME OF YOU ARE ALSO CONCERNED ABOUT THE SCOPE OF THE ANTI-ESTATE FREEZE LEGISLATION ENACTED IN 1987. SOME EXPERTS HAVE HAD A FIELD DAY INVENTING WAYS OF APPLYING SECTION 2036(C) TO A WIDE VARIETY OF ORDINARY BUSINESS TRANSACTIONS WITH ABSURD RESULTS.

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O IN THIS CASE, HOWEVER, PENDING TREASURY

REGULATIONS ARE EXPECTED TO RULE OUT THE

APPLICATION OF SECTION 2036(C) TO MANY TYPES

OF TRANSACTIONS WITH NO TAX AVOIDANCE

POTENTIAL. ONCE THESE REGULATIONS ARE ISSUED,

ALL OF US WILL BE BETTER ABLE TO ASSESS

WHETHER THIS PROVISION PRESENTS THE

PROBLEMS WHICH ARE WIDELY ASCRIBED TO IT.

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BANK POWERS

O A LOT OF PEOPLE HAVE BEEN WONDERING IF THE
S&L ISSUE WILL PUT BANK POWERS -- INCLUDING THE
POWER TO ENGAGE IN THE INSURANCE BUSINESS --
BACK ON THE AGENDA. I CAN TELL YOU THAT, ON
THE SENATE SIDE, BOTH THE CHAIRMAN AND THE
RANKING MEMBER OF THE BANKING COMMITTEE ARE
CONCERNED THAT PUTTING BANK POWERS ON THE
TABLE WILL DELAY ACTION ON SAVINGS & LOANS. I
AGREE.

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O THE COST OF BAILING OUT THE THRIFT INDUSTRY

HAS BEEN GROWING AT A RATE OF \$1 BILLION A

MONTH. WE CAN'T AFFORD TO HOLD THIS UP ANY

LONGER.

O NEVERTHELESS, IT IS VERY LIKELY THAT THE ISSUE OF

BANK POWERS WILL RESURFACE IN THE NOT TOO

DISTANT FUTURE. LAST YEAR'S FINANCIAL

MODERNIZATION ACT, INTRODUCED BY SENATOR

PROXMIRE, PASSED THE SENATE OVERWHELMINGLY

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(94-2) BUT DIED IN THE HOUSE DUE TO

JURISDICTIONAL DISPUTES BETWEEN THE CHAIRMEN

OF THE HOUSE BANKING AND ENERGY AND

COMMERCE COMMITTEES.

O MOREOVER, LAST FRIDAY THE FEDERAL RESERVE

OPENED THE DOOR BY RULING THAT A BANK

HOLDING COMPANY WHICH ACQUIRED A

STATE-CHARTERED BANK WITH INSURANCE POWERS

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COULD CONTINUE TO CONDUCT THE INSURANCE
BUSINESS THROUGH THE SUBSIDIARY. THIS RULING
ONLY AFFECTS COMPANIES IN THOSE STATES WHICH
GRANT INSURANCE POWERS TO BANKS, BUT IT IS A
BEGINNING. AND IT MAKES CONGRESSIONAL ACTION
MORE TIMELY.

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MCCARRAN-FERGUSON REPEAL

O FINALLY, SENATOR METZENBAUM INTENDS TO REINTRODUCE LEGISLATION TO REPEAL THE INSURANCE INDUSTRY'S LONG-STANDING EXEMPTION FROM THE ANTI-TRUST LAWS. NOT SURPRISINGLY, MCCARRAN-FERGUSON REPEAL WAS RECENTLY ENDORSED BY THE AMERICAN BAR ASSOCIATION. THE SENATE JUDICIARY COMMITTEE FAILED TO BRING SIMILAR LEGISLATION TO THE SENATE FLOOR LAST CONGRESS, BUT THERE IS NO INDICATION THAT THEY WILL REFRAIN FROM ACTING THIS YEAR.

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CONCLUSION

O THE BOTTOM LINE -- WHEN WE'RE TALKING ABOUT
KEY ECONOMIC ISSUES LIKE THE DEFICIT, TAXES,
AND GOVERNMENT REGULATION -- IS THAT THESE
PROBLEMS WON'T BE SOLVED UNLESS WE ALL START
WORKING TOGETHER. THAT INCLUDES NOT ONLY
THE PRESIDENT AND CONGRESS, BUT ALSO THE
BUSINESS COMMUNITY.

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O YOU HAVE A KEY ROLE TO PLAY. IN YOUR

PARTICULAR INDUSTRY, YOU HAVE THE ABILITY TO

INCREASE PERSONAL SAVINGS -- AND OUR NATIONAL

SAVINGS RATE NOW IS A DISGRACE. THEREFORE, I

HOPE THAT YOU WILL JOIN WITH US IN CONGRESS IN

TRYING TO REDUCE THE GAP BETWEEN SPENDING

AND SAVINGS IN AMERICA.

O THANK YOU.