

MARCH 14, 1989
SPEECH TO EDEN FINANCIAL GROUP CONFERENCE

- O IT IS A GREAT PLEASURE TO BE HERE THIS MORNING.
- O TAD TELLS ME YOU WANT TO HEAR ABOUT TAXES
AND THE PROSPECTS FOR TAX LEGISLATION THIS
YEAR. BUT AS YOU KNOW, WE CAN'T TALK ABOUT
TAXES AND TAX POLICY WITHOUT FIRST SAYING A
FEW WORDS ABOUT THE BUDGET DEFICIT.
MOREOVER, THE DEFICIT IMPACTS EVERY
INVESTMENT YOU MAKE AND EVERY FINANCIAL
PRODUCT YOU SELL.

THE BUDGET DEFICIT

O I THINK PRESIDENT BUSH IS OFF TO A GOOD START.

THE PRESIDENT HAS MADE REDUCING THE BUDGET DEFICIT HIS NUMBER ONE LEGISLATIVE PRIORITY. HIS FIRST MEETING WITH CONGRESSIONAL LEADERS, WHICH I ATTENDED, WAS A BIPARTISAN MEETING ON THE DEFICIT THAT LASTED TWO HOURS. AND JUST LAST WEEK, BECAUSE OF THE PRESIDENT'S COMMITMENT THE DEMOCRATIC LEADERSHIP IN CONGRESS AGREED TO BEGIN DEFICIT REDUCTION TALKS WITH THE PRESIDENT'S BUDGET DIRECTOR.

THE BUSH BUDGET

O IN HIS ADDRESS TO CONGRESS, 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. AND SO FAR, NO ONE HAS CALLED HIS PLAN "DEAD-ON-ARRIVAL.

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- O NOW I DIDN'T REALLY APPRECIATE THE MERITS OF THE FLEXIBLE FREEZE UNTIL NEW HAMPSHIRE. BUT THE CONCEPT IS REALLY QUITE SIMPLE. IT MERELY RESTRAINS THE GROWTH IN FEDERAL SPENDING TO THE RATE OF INFLATION.
- O EVEN WITHOUT ANY CHANGES IN CURRENT POLICY, FEDERAL REVENUES WILL INCREASE BY MORE THAN \$80 BILLION IN 1990. WITH THIS REVENUE GROWTH, IT WILL BE POSSIBLE TO MEET THE 1990 G-R-H DEFICIT TARGET, IF CONGRESS STICKS TO THE PRESIDENT'S PLAN.

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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, AND SIGNIFICANTLY CUTS OTHER PROGRAMS.

THE BUDGET PROCESS

- O FINALLY, I BELIEVE THAT IT IS IMPORTANT THAT WE ACCELERATE THE NORMAL BUDGET PROCESS WHICH CAN DRAG ON UNTIL OCTOBER OR NOVEMBER.

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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, LESS THAN ONE WEEK IS LEFT TO COMPLETE THAT WORK ON TIME.

- O STARTING BUDGET NEGOTIATIONS NOW IS THE ONLY RESPONSIBLE THING TO DO. 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 AND
THE CLEAN-UP OF NUCLEAR WASTE. THE PRESIDENT
SHOULD NOT HAVE HIS AGENDA HELD HOSTAGE BY A
CONGRESS THAT PREFERS TO POINT FINGERS
RATHER THAN FACE UP TO THE TOUGH BUDGET
CHOICES.

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 THAT 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 I KNOW THAT MOST OF YOU ARE CONCERNED ABOUT
FUTURE CHANGES IN THE TAXATION OF SO-CALLED
SINGLE PREMIUM AND DEFERRED ANNUITY
PRODUCTS. THE TREASURY IS REQUIRED TO SUBMIT
A STUDY OF THE INVESTMENT USE OF THESE
PRODUCTS TO THE CONGRESS BY JULY 1.
WHENEVER THIS STUDY IS COMPLETED, YOU CAN BE
SURE THAT SOME MEMBERS OF CONGRESS WILL
EXAMINE IT CAREFULLY.

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O AS YOU KNOW, LAST YEAR'S COMPROMISE
LEGISLATION DEALING WITH THE TAXATION OF THESE
PRODUCTS WAS VERY CONTROVERSIAL. AN
IMPORTANT CHAIRMAN LOST THE COMMITTEE VOTE.
AND WHILE I DON'T BELIEVE THAT THERE IS ANY PLAN
TO REVISIT THAT VOTE THIS YEAR, I WANT TO WARN
YOU THAT AGGRESSIVE MARKETING OF THE TAX
ADVANTAGES OF THESE PRODUCTS COULD PROVIDE
THE EXCUSE FOR FURTHER RESTRICTIVE
LEGISLATION. AFTER ALL, IT WAS ADVERTISEMENTS
IN THE NATIONAL PRESS THAT PROVIDED THE
IMPETUS FOR LAST YEAR'S RESTRICTIVE
LEGISLATION.

INSIDE BUILD-UP

- O WHATEVER THE OUTCOME, HOWEVER, I CERTAINLY DO NOT EXPECT ANY MAJOR EFFORT TO LIMIT THE TAX DEFERRAL OF INSIDE BUILD-UP IN THIS CONGRESS.

CAPITAL GAINS TAX RELIEF

- O RIGHT THIS MINUTE, THE FINANCE COMMITTEE IS HOLDING A HEARING ON THE PRESIDENT'S PROPOSAL TO REDUCE THE LONG-TERM CAPITAL GAINS TAX RATE ON INVESTMENT ASSETS. ECONOMISTS FROM BOTH TREASURY AND CONGRESS ARE THERE TO DEFEND THEIR REVENUE ESTIMATES.

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O THE TREASURY ESTIMATES THAT THE PRESIDENT'S PROPOSAL WILL INCREASE REVENUES OVER A FIVE-YEAR PERIOD BY \$9.3 BILLION, WHILE THE JOINT TAX COMMITTEE ESTIMATES THAT REVENUES WILL DECREASE BY \$24.2 BILLION OVER THE SAME PERIOD...WHATEVER THE OUTCOME, I BELIEVE THAT THE CONGRESS WILL BE RELUCTANT TO GAMBLE ON SUBSTANTIAL LONG-TERM REVENUE GAINS FROM THIS PROPOSAL.

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O IN ADDITION. CHAIRMAN ROSTENKOWSKI HAS
INDICATED THAT HE WILL NOT ACCEPT A CAPITAL
GAINS TAX DECREASE WITHOUT INCREASES IN
INCOME TAX RATES WHICH ARE NOT ACCEPTABLE TO
THE PRESIDENT AND MANY MEMBERS OF CONGRESS,
NOT JUST REPUBLICANS.

LEVERAGED BUY-OUTS

- O ANOTHER ISSUE WHICH HAS LOST MOMENTUM THIS CONGRESS IS THE EFFORT TO STOP CORPORATE TAKEOVERS BY TAX LEGISLATION. THE SENATE FINANCE COMMITTEE, AT LEAST, IS UNLIKELY TO ACCEPT ANY CURTAILMENT OF THE CORPORATE INTEREST DEDUCTION UNLESS ECONOMIC EVENTS DIRECT RENEWED ATTENTION TO THIS ISSUE.

INSURANCE COMPANY ISSUES

O THIS YEAR, THE CONGRESS IS EXPECTING THE RESULTS OF A STUDY 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, IT IS IMPORTANT THAT INSURANCE INDUSTRY REPRESENTATIVES OVERCOME SELF-INTEREST AND PROVIDE US WITH THE INFORMATION NECESSARY TO REACH A FAIR RESULT.

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.

- 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, JUST THIS MONTH THE FEDERAL
RESERVE OPENED THE DOOR A CRACK BY RULING
THAT A BANK HOLDING COMPANY WHICH ACQUIRED
A STATE-CHARTERED BANK WITH INSURANCE
POWERS COULD CONTINUE TO CONDUCT THE

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INSURANCE BUSINESS THROUGH THAT SUBSIDIARY.
ALTHOUGH THIS RULING ONLY AFFECTS COMPANIES
IN A FEW STATES, IT IS A BEGINNING. AND IT MAKES
CONGRESSIONAL ACTION MORE TIMELY.

MCCARRAN-FERGUSON REPEAL

- AFTER THE EASTER RECESS, 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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O I HAVE LONG BELIEVED THAT INSURANCE
REGULATION BELONGS AT THE STATE LEVEL. THOSE
WHO SUPPORT MCCARRAN FERGUSON REPEAL WILL
NEED TO DEMONSTRATE THAT THE INSURANCE
TODAY IS NOT COMPETITIVE AND THE FEDERAL
BUREAUCRATS CAN DO A BETTER JOB. I DOUBT
THEY CAN.

SECTION 89

O IN ADDITION, SOME OF 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 THIS
MONTH. 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 ROSTENKOWSKI, WHO HAS REPEATEDLY DEFENDED SECTION 89 IN THE PAST, NOW ACKNOWLEDGES THAT THESE RULES NEED SIMPLIFICATION.

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.

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PREFER CHOICES, THE DEMOCRATS OPT FOR
MANDATES. IN SO DOING, THE DEMOCRATS
LIMIT THE OPTIONS GIVEN TO EMPLOYEES.

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Eden

Timothy C. O'Crowley
Principal

January 31, 1989

The Honorable Robert Dole
Minority Leader United States Senate
Washington, D.C.

Dear Mr. Dole:

We would like to invite you to be the keynote speaker at our "Tax and Insurance Legislation Briefing" which we are sponsoring in Washington for certain executives of selected New York Stock Exchange brokerage firms.

Our firm, The Eden Financial Group, consults on the development and marketing of insurance products and mutual funds through over 800 broker dealers including most major Wall Street Firms. In 1988 our retail brokerage firm clientele placed in excess of 1 billion dollars of their clients funds into insurance and mutual fund companies which we represent. A major part of our client service and public relations function is to keep our customers abreast of the changing tax and legislative environment.


Because of recent changes and proposed legislation affecting insurance products, we feel it is imperative to keep our brokerage firm clients updated. In light of this we will have in attendance approximately 30 senior marketing executives representing many major N.Y.S.E. member firms at our conference. Most all of these executives have direct responsibility for the retail insurance divisions of their respective firms.

Appropriate subject matter for this forum would be your thoughts on the direction of the 101st Congress relative to taxation generally and insurance taxation specifically. A talk of 30 minutes with an additional 15 minutes for questions would be ideal.

We are willing and able to accomodate your calendar for a March 14th presentation. Any time between 10:00am and 2:00pm on that date would be appropriate. Certainly we are prepared to pay an honorarium and any expenses you may incur.

\$5,000 hon

MARCH 13, 1989

TO: SENATOR DOLE
FROM: CAROLYN SEELY 
SUBJECT: SPEECH TO EDEN FINANCIAL GROUP CONFERENCE

On Tuesday March 14, 1989, you are scheduled to be the featured speaker at a conference of insurance and brokerage industry executives sponsored by Eden Financial Group, Inc., a client of Tad Davis. The topic of your speech is described as "the attitude of Congress toward taxation, particularly as it relates to insurance and investment". The other speakers will be industry experts in new product design, marketing and taxation.

With respect to insurance products, the most important issue is the repercussions of last year's public defeat of Chairman Rostenkowski in the close Ways and Means Committee vote on the reform of single premium life insurance taxation. It is not likely that the Chairman will raise this issue in Committee again unless he has new data supporting his position. Such data is most likely to arise if the Treasury study of the continuing use of single premium and deferred annuity products for investment purposes, which is due on June 1, 1989, reveals that there are abusive new products or that these products are still being marketed as tax shelters. (The Treasury study also addresses the taxation of inside build-up -- Chairman Rostenkowski's parting shot at this industry, but an unlikely subject for tax reform in the near term.)

With respect to investments, capital gains relief is unlikely if the cost is re-opening the income tax rate structure as Chairman Rostenkowski has threatened. Moreover, Congress is unlikely to gamble on long-term revenue increases from the President's proposal in the face of Congressional estimates showing large losses. On the other hand, LBO tax reform has lost all momentum although House staff are continuing to develop options. Unless there are new economic developments or highly publicized transactions, anti-LBO proposals are likely to be rejected by the Finance Committee, if not by Ways and Means itself.

*Senate -
Want to do ??
(then prior to recess)
yes
no*

B

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February 1, 1989

*March 14
Tues.
betw. 10 & 2:00
mayflower*

*10:00 am
Og*

Ms. Betty Myer
Executive Assistant
Office of the Honorable
Bob Dole
141 Hart Senate Office Building
Washington, D.C. 20510-1601

Dear Betty:

The Eden Financial Group had to change the date to March 14 because that was the only date they could get a place to meet. It will be at the Mayflower Hotel.

The honorarium is the same - \$5,000. I hope we can still work something out.

Sincerely,

Tad

Tad Davis

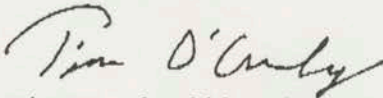
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2/8 Advised Tad Sen. would do.

The Honorable Robert Dole
January 31, 1989
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I do hope, Mr. Dole, that it will be possible for you to participate. Please feel free to respond to either myself or our Washington representative, Mr. Thomas Davis of Davis and Harmon.

Respectfully yours,



Timothy C. O'Crowley, Principal
Eden Financial Group, Inc.