

The Washington Letter is a regular update and commentary on national politics and policy affecting the AEGON companies.

March, 2010



And the Award Goes to...

Women Airforce Service Pilots (WASP) in WWII!

They were honored on Wednesday, March 10th with the Congressional Gold Medal 65 years after their service. The WASP program was established in 1942 to create a corps of female pilots to fill flying jobs at home to allow more male pilots to engage overseas. It wasn't until 1977 that President Carter granted these women veteran status allowing them to receive benefits. There were a total of 1,100 women involved in the WASP program of which currently 300 are still living, all over the age of 80. 175 of these women and their families traveled to Washington, DC to be honored.



Women Airforce Service Pilots (WASP)

We are also happy to report that other progress has been made in Washington.

- Discussions between Senate Banking Committee members continue in an attempt to reach a bipartisan agreement on regulatory reform with much of the focus on how to address consumer protection, an issue that remains unresolved.

Chairman Dodd would like to mark up a bill this month before the next recess (March 29 through April 9). If a decision is made to move forward with a markup without a bipartisan deal, there would have to be continuing negotiations and refinements before a bill would be considered on the Senate floor. Separately, the Senate Agriculture Committee is also working on derivatives legislation, and is not expected to markup legislation until later this month or in April.
- Senators Ron Wyden (D-OR), a member of the Finance Committee, and Judd Gregg (R-NH), ranking member of the Budget Committee, introduced their new fundamental tax reform plan. A base-broadening, rate-lowering revenue neutral rewrite of the tax code, the Wyden-Gregg proposal is the opening shot across the bow for a tax reform debate that is likely to begin this year and last into the next Congress.

Wyden-Gregg does not propose changing the tax rules governing life insurance and annuities. It proposes elimination of an array of tax benefits. Among those that impact life insurance, annuity and employer-provided benefits are:

 - o Elimination of cafeteria plans
 - o Elimination of tax-free earnings growth by VEBAs (Voluntary Employees Beneficiary Associations)
 - o Elimination of an employer's ability to provide tax-free group term life, accident and disability insurance
 - o Codification of the economic substance doctrine (i.e., to qualify for a tax benefit rule, the user of the rule must show a business reason for the transaction over and above the tax benefit reasons for using the rule)
- A step was made towards managing the nation's debt as President Obama signed into law legislation creating a statutory Pay-as-you-go rule. However, this rule was also packaged with a \$1.9 trillion dollar increase in the national debt ceiling. The new rule means that congressional legislation with spending increases or tax cuts needs to be offset with revenue raisers. However, these offset requirements can be waived by a supermajority vote. In addition to the ability to waive the requirements, there are four exceptions, including a two-year reinstatement of the estate tax at 2009 rates.

On another front, in an effort to bring resolution to health care reform, the President released his proposal at the end of February in an attempt to address some of the Republican concerns. The President's plan includes a proposal to add a 2.9% tax to earnings distributed from annuities, capital gains and dividend income received by individuals earning more than \$200,000 (\$250,000 for couples). The revenue raised would go to the Supplemental Medical Insurance (SMI) trust fund to help pay for healthcare reform. The life insurance industry is voicing its concerns that individuals' retirement security should not be taxed in an effort to pay for healthcare reform.

In addition to debate on the substance of healthcare reform, congressional leaders continue to discuss the process to be used to pass the bill. The President is requesting an "up or down" vote from Congress, which really means he is requesting that Congress use the reconciliation process to push the bill through. The reconciliation process would enable Senate passage of a healthcare bill by only a majority vote, thereby avoiding the ability of opponents to delay a vote by filibuster. However, the use of reconciliation is extremely technical and is politically sensitive. It is too early to tell whether the strategy of enacting healthcare reform by reconciliation will be successful.

We will be keeping a close eye on these and other issues over the coming months.

Sincerely,

The AEGON USA Government Relations Team