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Founded in 1880 as the National Association of Life Underwriters

## ADVOCACY



# GOVWATCH

THE VOICE OF THE AGENT

## Senate Passes Market Rescue Bill; Tax Extenders and Mental Health Parity Included

**Issue: Financial Services/Tax/Health**

**Date: October 2, 2008**

**Action Taken:** Last night the U.S. Senate passed the highly anticipated market rescue bill by a vote of 74 to 25. Due to his health problems, Senator Ted Kennedy (D-MA) was the only member of the Senate not present to vote. To see how your Senators voted [click here](#). The bill now moves the House of Representatives where it is expected to be considered on Friday.

The Senate used mental health parity legislation (H.R.1424) as the "vehicle" for moving the market rescue bill. The Senate also attached their version of tax extenders/energy tax/AMT fix provisions that have been the subject of disagreement between the House and Senate. The Senate version is not revenue neutral and the House version is partially offset with new revenue raising provisions. As a result, many budget hawk House members are furious with the Senate for forcing on them the contentious tax provisions as part of the rescue package.

**Impact on NAIFA Members:** The complex package approved by the Senate contains little that directly affects the products NAIFA members sell; however it does contain several provisions that will provide tax relief to NAIFA members and their clients and leave individuals with more money to cover their immediate needs or to invest for the future.

The bill extends several expiring individual tax benefits. Importantly, the bill extends through 2008 the relief that keeps millions of Americans from being affected by the alternative minimum tax. The bill extends through 2009 provisions allowing individuals to deduct state and local sales taxes, deduct qualified tuition payments, receive an additional standard deduction for property taxes, and make tax-free distributions from IRAs to charities after age 70-1/2.

The bill contains a large package of provisions giving tax relief to businesses and individuals affected by disasters. It also provides significant tax incentives for investment in energy-efficient technologies.

The mental health parity provisions would require private insurance plans that offer mental health benefits as part of the coverage to offer such benefits on par with the medical-surgical benefits.

The bill also contains some revenue raising provisions. One provision targeted at hedge fund managers would limit offshore nonqualified deferred compensation. Another would require broker reporting of a customer's basis in securities.

The bill would increase from \$100,000 to \$250,000 the FDIC limit on insured bank deposits.

Most importantly, of course, the financial rescue bill, through its program for purchasing troubled assets, is intended to provide stability to the nation's economy – stability that is necessary for clients to feel comfortable making long-term investments in the products offered by NAIFA members.

**NAIFA Staff Contact:** For additional information, please contact [Jill Edwards](#), Assistant Vice President of Federal Relations

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## House Approves Economic Rescue Package

**Issue: Financial Services/Tax/Health Insurance**

**Date: October 3, 2008**

**Action Taken:** Today the House of Representatives approved by a vote of 263 to 171 the economic rescue package that has been at the heart of raging debate in Congress for the last ten days. To see how your elected Representative voted, [click here](#). In addition to the \$700 billion rescue package that has been reported on extensively in the media, the bill also extends several expiring individual tax benefits that, although not necessarily specific to the products NAIFA members sell, will nonetheless impact NAIFA members personally and their clients. Specifically, the bill extends through 2008 tax relief that will prevent 22 million individuals from being brought under the alternative minimum tax and thereby be subject to considerably higher taxes in 2008. The bill also extends through 2009 provisions allowing individuals to deduct state and local sales taxes, deduct qualified tuition payments, receive an additional standard deduction for property taxes, and make tax-free distributions from IRAs to charities after age 70-1/2.

In addition, the bill includes mental health parity provisions which directly affect NAIFA and AHIA members who market medical and hospital insurance. Specifically, the parity provisions require that mental health and substance abuse benefits offered in an employer-sponsored health insurance plan be on a par with the medical-surgical benefits included in the plan. These parity rules apply to employers with 51 or more employees who offer health insurance that includes mental health/substance abuse benefits. (That means the rules do not apply to employer-sponsored health insurance plans that exclude mental health/substance abuse benefits.) Thus, under the new rules, such health insurance elements as deductibles, copays, in-network considerations, etc. must be applied equally to mental health/substance abuse benefits as they are to medical-surgical benefits.

**Next Steps:** The bill now goes to the President for his signature.

**NAIFA Staff Contact:** For additional information, please contact [Jill Edwards](#), Assistant Vice President of Federal Relations or; [Diane Boyle](#), AHIA Executive Vice President.

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## Cox and Snow Cite Lack of Financial Services Coordination as Contributor to Market Crisis; Greenspan Differs

**Issue: Financial Services Regulation**

**Date: October 24, 2008**

**Action Taken:** Yesterday the House Oversight and Government Reform Committee (Chairman Henry Waxman, D-CA) held a hearing entitled: "The Role of Financial Regulators in the Financial Crisis." The purpose of the hearing was to receive the views of current and former federal regulators on the causes of the current financial crisis and what solutions should be put forward to prevent repeating this crisis in the future.

The witnesses at the hearing were:

- Alan Greenspan, former Chairman, Federal Reserve
- John Snow, former Secretary of the Treasury
- Christopher Cox, Chairman, Securities and Exchange Commission

**Testimony of Note:** Secretary Snow and Chairman Cox testified that financial services regulators each understand a piece of the overall financial services pie and no one entity was able to identify the systemic risk presented by securitization of sub-prime mortgages that led to a global economic meltdown. According to Snow, risk and leverage is the root of the problem and nowhere in our financial regulatory system is there a regulator with full accountability and a complete view of the scope of risks taking place in the market. Snow reminded the Committee that the Treasury Department, in March of this year, identified a plan known as the [Treasury Blueprint](#) that calls for a systemic regulator. In addition, Snow mentioned the Blueprint plan calls for the creation of optional federal insurance regulator as one interim step toward the establishment of a new comprehensive financial services regulatory regime.

Chairman Cox agreed that better coordination is needed and went further to identify regulatory gaps as a major contributor to the crisis. According to Cox, the mortgage crisis ballooned into a global economic crisis as a result of the \$58 trillion dollar unregulated credit default swap (CDS) market. Congress included language specifically prohibiting the SEC from regulating CDS when it passed the Commodity Futures Modernization Act in 2000. The gap still exists today, and what was a relatively new and unknown market in 2000 has emerged as an entirely unregulated market whose output is more than the entire world economy in a given year. Cox suggested that Congress address the regulatory gap for CDS. Currently, CDS contracts fall under the jurisdiction of the House Financial Services Committee, Senate Banking Committee, and the House and Senate Agriculture Committees that oversee the Commodity Futures Trading Commission. To ensure coordination, Cox suggested Congress establish a select committee on financial services regulatory reform.

Former Chairman Greenspan said he did not think that better coordination of regulators would have prevented the crisis. He stated that any regulatory changes that come forward "will pale in comparison" to the changes already taking place today's market. He anticipates that exotic financial instruments will no longer find buyers and if left alone our financial system will recover to be stronger than ever. In Greenspan's view the economy will recover when home prices stabilize. Until that time, he believes the current \$700 Billion Troubled Assets Management Program approved by the Congress is "adequate" to

address the credit crunch. In terms of changes that need to be made, Greenspan supports requiring mortgage securitizers to retain a "meaningful" part of the securities they issue so they are not removed from managing the risk of the underlying loan. Snow and Cox both agreed that loan issuers should be required to keep some skin in the game. Greenspan also said the current market crisis is broader than anything he could ever imagined and opined that, "Given the financial damage to date, I cannot see how we can avoid a significant rise in layoffs and unemployment."

**Impact on NAIFA Members:** NAIFA continues to monitor developments that could lead to changes in the financial services regulatory landscape. Currently Congress is undergoing a fact finding mission by holding a host of hearings to understand what led to the current crisis. No specific regulatory solutions have been put forward, and NAIFA is working closely with Members of Congress and their staff to advise them on how any potential solutions will impact the ability of NAIFA members to serve their clients. It should be noted that Wednesday, in a financial services hearing on the market crisis, witnesses from the Financial Services Roundtable and the American Bankers Association reiterated their longstanding support for the federal government to have a role in regulation of insurance. NAIFA supports the concept of an optional federal insurance charter provided that necessary protections are put in place for agents, consumers, and the state based regulatory system is not supplanted with a new mandatory federal regime. For more information on NAIFA's regulatory reform efforts and the conditions of our support for an optional federal charter visit [www.naifa.org/irr](http://www.naifa.org/irr).

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