

February 26, 2009

Russ Sullivan
Democratic Staff Director
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Sullivan:

In response to your request for comments on the Senate Finance Committee Staff Discussion Draft of a proposal to modify the tax treatment of insurance companies that deduct premiums in excess of the industry average (the "Discussion Draft"), we respectfully submit the attached letter in support of the legislation which we sent to our members of Congress.

Thank you for the opportunity to provide you with our comments.

Sincerely,



Robert C. Morlan
Assistant Vice President
Business Relations & Governmental Affairs
EMC Insurance Companies

RCM:lb

cc: Bruce G. Kelley, CEO

Attachment

IA(HR.6969)SenateFinanceComm.2-26-09L

The Honorable Senator Charles Grassley
United States Senate
135 Hart Senate Office Building
Washington DC 20510

Dear Senator Grassley:

The undersigned companies are U.S. property and casualty (“P&C”) insurance companies representing many of the 10,000 employees in Iowa. We are writing to urge you to support legislation similar to that introduced by Rep. Richard Neal in the 110th Congress (H.R. 6969) and also released by the Senate Finance Committee staff as a discussion draft on December 10, 2008 (the “Discussion Draft”). This loophole-closing legislation would put reasonable limits on the tax advantage gained by foreign insurers and reinsurers from the use of excessive offshore related party reinsurance.

If enacted, this legislation would remedy a significant and unfair tax-induced competitive advantage favoring certain foreign-owned insurance companies over domestic insurers when selling P&C insurance in the U.S. market. In addition, the advantage gained from this tax loophole is contributing to a dramatic increase in the migration of insurance capital offshore, which erodes the U.S. tax base. In 2007, nearly \$34 billion of U.S. premiums went offshore through related party reinsurance, up from \$4 billion in 1996. The legislation would stem the U.S. corporate tax base erosion that currently results from offshore related party reinsurance.

Although there are certainly legitimate business reasons for reinsurance, many foreign insurers and reinsurers are using excessive related party reinsurance simply to avoid U.S. tax, creating a competitive disadvantage for U.S. insurers and reinsurers. The federal government has recognized these concerns for years. For example:

- In 1942, Congress enacted the insurance and reinsurance excise tax in an attempt to level the playing field for insuring U.S. risks.
- In 1990, Treasury concluded in a study that offshore P&C insurers and reinsurers have a significant tax-induced competitive advantage even with the excise tax.
- In 2002, Treasury testified before the House Ways and Means Committee expressing concern with the use of offshore related party reinsurance to avoid U.S. tax and stating that mechanisms in existing law are insufficient to address the problem.

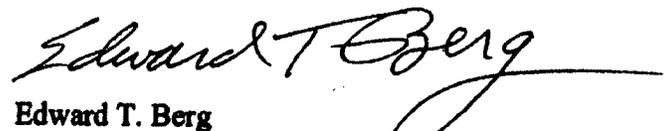
- In 2004, Congress passed legislation intended to give Treasury and the Internal Revenue Service authority to address the concerns, but it has proven to be ineffective.
- In 2007, the Senate Finance Committee heard testimony from the Coalition for a Domestic Insurance Industry calling on Congress to act.

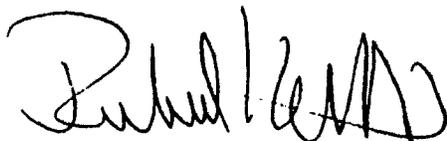
We urge you to address the longstanding concerns recognized by Congress and Treasury regarding offshore related party reinsurance by supporting the Neal Bill and the Discussion Draft. This will help stop the costly erosion of the domestic P&C insurance industry and the U.S. tax base.

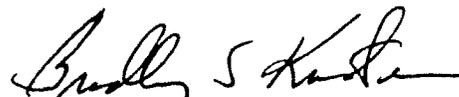
Thank you for considering our request. We welcome the opportunity to further discuss this issue and the proposed legislation with you.

Respectfully,


Bruce G. Kelley
President & CEO
EMC Insurance Companies


Edward T. Berg
President & CEO
Pharmacist Mutual Insurance Company


Richard Keith
President & CEO
IMT Insurance Company


Bradley S. Kuster
President & CEO
Continental Western Insurance