



The Honorable Max Baucus  
511 Hart Senate Office Building  
Washington, DC 20510

December 13, 2013

Dear Sen. Baucus:

I am writing to you today to express my concern with language included in the Senate Finance Committee's discussion draft of tax reform that would deny U.S. subsidiaries from deducting the cost of reinsurance ceded to affiliates that are not subject to U.S. taxes. In addition to affecting access and availability of property insurance for Americans, this legislation would raise the cost of reinsurance, thereby raising insurance prices for American consumers and businesses. Limiting supply and raising prices are not consumer welfare enhancing.

In an economic impact study of a similar Neal-Menendez bill sponsored during the 112<sup>th</sup> Congress by the Brattle Group found the proposed disparate tax treatment would reduce the net supply of reinsurance in the U.S. by 20 percent, forcing Americans consumers to pay as high as \$130 billion over the next 10 years. The study also found that Florida, with the highest homeowner rates in the country, would be among those most affected by the proposed tax change.

Reinsurers play an essential role in stabilizing our insurance marketplace by spreading risk across the globe. The proposed legislation would serve to limit U.S. insurance company access to global capital, thereby affecting insurer's ability to obtain capital necessary to absorb the catastrophic claims that imperil domestic insurance companies when coping with an influx of claims following a disaster. For example, international insurance companies are expected to cover more than half of the losses from Hurricane Sandy. Today, global insurance companies provide nearly two-thirds of all reinsurance throughout the country, including a considerable share of the home and business property insurance in Florida. This protectionist legislation would effectively limit reinsurance capital and put American lives at risk.

As an educational and research (501c3) nonprofit organization, the American Consumer Institute Center for Citizen Research (ACI) believes these changes to current law would negatively impact consumers by raising consumer prices, especially in disaster-prone regions. Therefore, we ask the Senate Finance Committee to weigh the unintended consequences of this protectionist tax and opt, instead, to embrace the idea of a competitive and robust insurance marketplace,

Sincerely,

Steve Pociask  
President and CEO  
American Consumer Institute  
Center for Citizen Research  
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