

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

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Message From Jeanne de Cervens Director, Federal Government Relations

2009. "This was a year that most of us would like to forget. However I believe that would be a mistake." Stated Pat Baird in his final address as the Chairman of the ACLI.

Pat was obviously referring to the economy. However, lessons learned include those from Capitol Hill. The Administration and Congressional reaction has reminded us of the need to focus on the customer and challenged us to manage major regulatory reform in an environment largely hostile to the financial services industry.

Financial Services Regulatory Reform tops the AEGON USA agenda and 2009 closed with the passage of the House reform plan. The House bill created, among other matters, a Federal Insurance Office, but left state regulation of insurance intact.

It was health care reform, however, that topped the Congressional agenda in 2009. We successfully beat back both a proposed excise tax on many of our supplemental products and the proposed imposition of a health sector tax on our business. We were not so lucky in defeating the creation of a government run long-term care insurance program. This program is considered to be a structurally unsound and extremely expensive entitlement program which will do little to meet the needs of the program's participants. It will likely disrupt the private market for LTC insurance. Opposition to the program is growing; however, we will not know the final results until a conference of the House and Senate passed bills is completed.

The year to come promises to be equally challenging. We have additional help, however. I would like to **welcome Shelley Flenniken to the Government Relations department as the new PAC and Grassroots Manager.** She is responsible for managing

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Pat Baird at ACLI Annual Meeting

the AEGON Political Action Committee, as well as developing and conducting an active grassroots program. The grassroots program will include engaging employees through consistent communication directly and through our AEGON CAN web site regarding key political developments and legislative issues impacting AEGON's US business. Shelley will also find opportunities to invite Members of Congress to visit our various offices, and to involve the Company and employees in various political activities that will support our government relations efforts. Finally, Shelley will support the AEGON USA Government Relations team in communications to Members of Congress, and other aspects of the Government Relations effort.

Shelley comes to AEGON with several years of experience in Marketing and Advertising with a Washington DC area advertising firm. She has a degree in Business Administration with a concentration in Marketing and International Business from Auburn University and is a big a SEC football fan.

Shelley will be part of the rest of the Government Relations team which is Byron Anderson, Assistant Director of Federal Government Relations, Diana Marchesi, Director of State Government Relations and Dawn Griffin, PAC Administrator and Government Relations Administrative Assistant.

PAT BAIRD STEPS DOWN AS ACLI CHAIR

This Fall has been a period of good-byes for Pat Baird. In addition to his retirement as CEO of AEGON USA, in October, Pat Baird stepped down as Chairman of the American Council of Life Insurers (the “ACLI”). Pat will continue to serve as a Director of the ACLI through 2010. Pat’s strong and steady leadership during the past year was critical to guiding the life insurance industry through the financial crisis.

Following are Pat Baird’s remarks as outgoing ACLI Chairman at the 2009 ACLI Annual Conference:

Introduction

When I accepted the chairmanship of ACLI last year, it was a unique and challenging time for the life insurance industry—to put it mildly.

The economy appeared to be in a rapid downward spiral. Blue chip financial institutions disappeared overnight. The stock market collapse wiped out trillions of dollars in wealth. The American people began questioning the stability of the American economy and the financial institutions they trusted. Credit markets had dried up and the performance of even our usually safe and conservative investments were in decline.

Millions of people lost their jobs and millions more were worried about losing theirs. The sense of fear and uncertainty about the future rivaled that of the Great Depression. And the life insurance industry found itself in the vortex.

ACLI staff along with many talented people sitting in this room worked tirelessly in many venues to make sure companies could withstand this terrible crisis. We worked closely to educate administration officials and to calm public concern.

While the industry, like the rest of corporate America, continues to face economic challenges, our collective hard work and dedication have paid off. The industry remains strong and able to serve the interests of our policyholder.

This was a year that most of us would like to forget. But I believe that would be a mistake. While the trials and tribulations of the last year may have largely been out of our control and by many indications the ship is righting itself, the last year offers valuable lessons for our industry as we move forward.

With that in mind, I’d like to run through some valuable takeaways for our industry from the past year.

Lesson One: Ignorance Has Consequences, Particularly In Washington

We have long known that there was a lack of understanding of our industry among those in Washington. Almost immediately after the market crash, we realized just how deep that void of knowledge was among the federal officials making crucial decisions impacting our industry, either directly or indirectly.

Federal officials had little information on the life insurance industry’s investment in the market, and the extent of the industry’s role in ensuring the financial and retirement security of millions of Americans. Federal officials didn’t understand how insurance companies establish reserves, match assets to liabilities, invest in American businesses and conduct business overseas.

How could this level of ignorance exist about a \$5 trillion industry?

Because the main focus was on banks, mutual funds, and other financial services firms the federal government regulates and understands, not the equally important life insurance industry.

The Treasury was distributing TARP funds to financial companies in order to kick start the credit markets. As a major source of corporate financing, including life insurers in the TARP process made sense.

However, with no one on the federal level with knowledge about or oversight of the life insurance industry, practical questions of how to administer the federal government’s investment threatened the industry’s eligibility to participate in the program.

With no federal agency or official to represent the industry, we took it upon ourselves and spent countless hours at Treasury and at the Federal Reserve explaining our systemic role in capital markets; how we invest; the long-term nature of our business; how 75 million American families depend on our products.

In the end, our collective efforts freed up TARP funds for the industry, under certain conditions, as well as other programs.

But the process underscored the flaws in our current regulatory system. On matters of national economic importance, due to the lack of a federal presence, there is a consequence to ignorance among federal policy-makers about our industry.

Lesson 2: Uniformity and Efficiency were not Sound Bytes Before the Crisis and are not Now

The crisis of 2008-2009 demonstrated that the uniformity and efficiency that we have been calling for are not simply sound bytes.

The crisis highlighted flaws in our regulatory systems that, while challenging during normal economic times, proved to be detrimental during times of economic stress.

Overly conservative reserve and risk-based capital requirements proved to be punitive rather than protective.

At the time, there was wide-spread recognition among state regulators that, while the industry as a whole remained strong, further market deterioration could have very serious consequences if changes weren't made to existing rules.

State regulators acted quickly and formed a Commissioner-level Working Group to expedite consideration of carefully crafted proposals that were designed not to bail out financially troubled companies, but to reinforce an already strong industry.

However, after much debate and negotiation, the NAIC delayed their decision on these reforms in favor of more deliberation — at a time when the reforms were needed most. This was also at a time when the federal government had already responded with help to federally regulated industries.

The lack of uniform guidance for the states on how to respond to the rapidly changing and volatile economic environment put the responsibility to respond to these unprecedented conditions to individual states.

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Several states did in fact adjust their own excessive reserving requirements, however, they did so on a case-by-case basis through company-specific permitted practices. The result was a significant competitive imbalance with winners and losers depending in the insurers' state of domicile. It was a far cry from the uniformity and efficiency needed to effectively navigate the financial storm.

Finally this past September, as you heard from Frank, the NAIC adopted four of the proposals that were part of the Capital and Surplus Relief package we were advocating as well as a welcomed change to SSAP 43R (previously SSAP 98).

Lesson Three: The Obscure Has Gone Mainstream

Our world fundamentally changed in September 2008 when the crisis hit, and not just from a financial standpoint. We were thrust into the public spotlight as never before and we faced more intense media scrutiny of our companies than most of us could have imagined.

Our investments, our reserve requirements and our accounting rules, once the domain of the specialty trade press, have become front page items in the nation's leading news outlets.

In some ways, this reflects belated attention to the major role life insurers have always played in the U.S. and global economy, as well as to ensuring the financial security of millions of Americans. But we have to become accustomed to the fact that, like it or not, we are now on a very public stage. I think this is good news, because we have a great story to tell. We have outstanding products that provide financial and retirement security that have benefitted millions of Americans, especially during these turbulent times. Our companies are fundamentally sound. Our policyholders are protected. We have nothing to hide.

Of course, greater scrutiny and increased attention means that our debates in Congress, in the states and at the NAIC could get hotter. Dare I say that some observers will see our issues as providing more opportunity than ever before to make political hay. Reasoned industry arguments could be overshadowed by colorful comments by opponents.

We have to work even harder to ensure that the policy positions we take always spell out very clearly that it is the consumer who benefits from our efforts, whether it is on tax policy, STOLI, SSAP 43R, or any of our other issues.

Lesson Four: Industry Collaboration and Unity is Paramount

As leaders of the life insurance industry, we share a common dilemma. Our first responsibilities are to our own company; our policyholders, shareholders, and employees.

But broader industry concerns also exist.

It's all about balance; advancing our individual concerns while at the same time advancing the industry that we believe in. Above all, it is about doing what is right for the customer.

I would like to thank ACLI for giving us the forum to come together to hash out our differences and find common ground.

ACLI is unique. I know of no other business association that is both as diverse and as unified as ACLI.

While the recent economic crisis affected companies differently, we stood together on the need for life insurers to be included in TARP, and we prevailed.

We successfully lobbied the NAIC to implement our changes to capital and reserve requirements and securities valuation, and we prevailed.

Our success is a tribute to the strong, unified position our industry maintained during the worst of the crisis.

As Frank alluded to earlier, the next few years will be as challenging as any in the history of ACLI.

Our nation is racking up deficit numbers that boggle the mind and will place enormous strains on the economy.

The economic meltdown has caused a crisis of confidence in our financial institutions. Both Congress and the administration are considering regulatory reforms that could significantly alter the way we have traditionally done business.

A federal tax threat is not off the table.

ACLI not only provides a forum for its member companies to come together, it WORKS to bring the life insurance industry together, reaching out to agent groups and other financial services associations. The one element we all have in common is perhaps the most important -- and should be the focus of any policy debate -- what is in the best interest of the customer.

Conclusion

And my final lesson is an old one, which is perhaps the greatest takeaway from the past year. As Benjamin Franklin (who founded the first mutual life insurance company in Philadelphia) once said, "We must all hang together, or we will all hang, separately."

You see, Congress does not pass the tax XYZ life insurance company Act or the "Incentive to Buy Transamerica Annuities" (though I would not be opposed to that).

Legislators and regulators pass laws or adopt regulations that impact the industry, not just individual companies. And as the soon-to-be past chairman of ACLI, I see that's the common thread to the lessons of the past year. That's why it's important that when we go to policy-makers in the states and in Washington, we present a unified front.

Yes, we are competitors —sometimes even rivals. But through the ACLI, we are able to bring our individual company issues to the table and build a consensus for action with a voice amplified 340 times—the number of ACLI member companies. And I am proud to say that at all times we never took our eye off of our primary interest --to do what is in the best interest of the customer.

I can tell you as Chairman when testifying before Congress on financial regulation or the NAIC regarding capital and surplus reform, it is comforting to have the force of ACLI's membership behind me.

That may be a lesson you already know, but as ACLI chairman it's been one that I've come to appreciate even more.

I'd like to take a moment to thank our Board of Directors and express special thanks to our Executive Committee...Rob Henrikson, Mike Fraizer, John Pearson, James Morris, Dennis Glass, and John Strangfeld.

And a very special thanks to Dave Turner who has done a tremendous job coordinating the efforts of our Board of Directors.

I also would like to acknowledge ACLI's Senior Staff who play a major role in the continued strength of this organization. Thanks to all of you for your dedication and hard work.

I would like to thank Frank Keating for his energetic leadership, bi-partisan approach and strategic thinking which have positioned ACLI to reach our goals. So please join me in saying thank you to Frank Keating.

Today, I will pass the baton as Chairman to Rob Henrikson. Rob and I have served together on this Board and the Executive Committee and I can tell you from experience that at this crucial time in our industry's history, we are fortunate to have someone as capable as Rob playing a key leadership role. Thanks for taking on this responsibility.

Finally, I want to thank all of YOU for your many contributions. Because of the work you do on behalf of ACLI and this industry, we are able to provide invaluable financial protection to more than 75 million American families – security they can rely on.