



FEDERAL POLICY OUTLOOK

The Inauguration of President Joe Biden, in Combination with Two Georgia Senate Wins, Bring Unified Democratic Control of Government

With the inauguration of President Biden and Democratic control of both the U.S. Senate and the U.S. House of Representatives, look for significant changes in federal policy, including taxes.

TAKEAWAYS

- 1. Unified Democratic Control Replaces Divided Government.** Democrats are in control of the White House, the Senate, and the House, although with historically slim majorities.
- 2. Democratic Majorities Are Razor Thin.** At 50-50 in the Senate and 222-212 in the House, Democratic majorities are exceedingly slim, which will constrain the Democratic agenda. Democrats will have almost no margin for error when trying to pass legislation on the floor.
- 3. Senate Filibuster Rule Will Constrain Democratic Agenda.** Unless Democrats vote to eliminate the filibuster (not expected), Senate process requires 60 votes to pass legislation. For most issues, the filibuster rule will prevent significant public-policy changes.
- 4. Democratic Agenda Less Constrained on Tax and Healthcare.** The filibuster rule can be set aside in limited cases through a special process called budget reconciliation, giving Democrats an opportunity to go bigger on tax and healthcare legislation. Both Obamacare in 2010 and the Republican tax bill in 2017 were passed through budget reconciliation.
- 5. Coronavirus Response/Economic Stimulus Package Is First Priority of Biden Administration.** Under unified Democratic control, another coronavirus relief package is possible. Because Democrats will need Republican votes in the Senate, this is not a foregone conclusion. Direct support in the amount of \$1,400 per person is the most likely area of agreement.
- 6. Democrats Will Likely Raise Individual Income Taxes on the Wealthy.** Democrats will have the votes to raise the top personal income-tax rate to 39.6% and establish a new wealth tax on income above a certain level. These wealth taxes are high on the agenda of Democratic tax writers.
- 7. Corporate Tax Increase on the Table.** Although some Democrats do not support raising the corporate rate during the current crisis, accelerating vaccinations and a recovering economy may change that calculus. Action on a corporate tax increase is likely.

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8. **SECURE 2.0 Gets Harder.** Bipartisan pro-annuities retirement legislation becomes less of a priority under single-party control as compared to divided government. SECURE 2.0 is still in play and well positioned, but its path forward becomes more difficult.
 9. **New Fiduciary Rule.** The Biden administration is expected to propose a new Department of Labor Fiduciary Rule. This could largely affect the life insurance industry.
 10. **Estate Tax Increase Could Be in Play.** During the campaign, President Biden supported returning the estate tax to 2009 levels when the top rate was 45% and the exemption was \$3.5 million per individual. There is less energy around an estate-tax increase than other proposals, but some reduction in the exemption aligns well with Democratic priorities.

WHITE HOUSE

Biden Administration

SENATE

Slim Democratic Majority

Democrats hold a 50-50 majority by virtue of Vice President Kamala Harris voting in the event of a tie.

HOUSE

Slim Four-Vote Democratic Majority

Democrats hold a 222-212 majority (with one race still too close to call), so they cannot lose more than four Democrats on any vote.

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2 of 2



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