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Microsoft Break-up Would Benefit Consumers

The Department of Justice and attorneys general from 17 states issued a proposal in April to split Microsoft into two companies as the best remedy for the software giant's antitrust violations.

Under the plaintiffs' proposed remedy in the antitrust trial, Microsoft would be split into an operating system company built around Windows and an applications company built around the Office suite and Internet Explorer.

"This approach is cautious, but it appears to be a good compromise," said CFA Research Director Mark Cooper. "Breaking up Microsoft would unleash powerful new competitive market forces in the industry and send a strong message that illegal business practices will not be tolerated."

Not surprisingly, Microsoft strongly opposes the proposed break-up and has argued instead for a limited conduct remedy even as it continued to contest the Court's findings of antitrust violations and consumer harm.

Cooper, who earlier in April released a report analyzing possible remedies, argued that a conduct remedy would likely be ineffective. "Competition cannot be restored without a break- up," he said.

Report Documents Benefits

The report – *Facts, Law, and Antitrust Remedies: Time to Hold Microsoft Accountable for its Monopoly Abuse* – documents the reasons a break-up offers the best means of reining in Microsoft's abusive business practices and giving competition a chance to take root.

"The Court has a duty to prescribe relief that terminates the illegal monopoly, prevents practices likely to result in monopolization in the future, and denies the defendant the fruits of its statutory violations," Cooper said.

The Court has found extensive consumer harm as a result of Microsoft's anticompetitive practices, he noted, including slowing of innovation, denial of consumer choice, lowering of product quality, price increases, increased consumer transaction costs, and increased consumer hardware costs.

"The Supreme Court has made it clear that, where such a sweeping violation of law has taken place, the court must pry open the market that has been closed to competition," he said.

Cooper noted that a break-up of the company offers distinct advantages over a conduct remedy, even a conduct remedy far more comprehensive than that suggested by Microsoft in its counter- proposal.

"Breaking up the company would create immediate competition and not require court oversight of company behavior," he said.

"Each of the new companies would be free to compete fairly, without government meddling in their business, but they would not have a dominant position or the ability to leverage market power," he explained.

A conduct remedy would not restore competition as quickly and it would be much more difficult to implement, he added.

Case Against Break-up Rebutted

The report rejects claims that a break-up would hurt consumers, noting that arguments against a break-up are essentially a defense of monopoly in the industry.

On the contrary, "experience in other industries suggests that real competition would produce many integrated, consumer-friendly operating systems that perform more reliably and better meet consumer needs," he said.

"In a world of competing systems, compatibility would become a highly valued commodity, and open standards would be developed," he added.

"Competitive industries center on standards that all companies can develop products for," he noted. "Non-dominant firms strive for enhanced compatibility."

It is worth noting, he said, that the products Microsoft attacked most vigorously were those that increased inter-operability and compatibility, because they threatened Microsoft's dominance.

"Competition builds out from a strong customer base in a complementary product, which is the competitive dynamic that existed in the mid-1990s before Microsoft 'cut off the air supply,'" Cooper said. "It makes good sense to resuscitate those market forces and let them work their magic."

The report, which also outlines the conditions a conduct remedy would need to meet to be reasonably effective, is available on-line at www.consumerfed.org/msremedies.pdf. To obtain a print copy, send $10 prepaid to Microsoft Remedies Report at CFA, 1424 16th St., N.W., Suite 604, Washington, D.C. 20036.

Consumer Credit Update:

Supporters Push Unwarranted Bankruptcy Bill

Faced with mounting evidence that sweeping new barriers to bankruptcy are unwarranted, supporters nonetheless continued to press relentlessly this spring for passage of punitive, one-sided legislation.

"Like the Energizer Bunny, the credit card industry campaign for severe restrictions just keeps going, despite the fact that bankruptcies are plunging," said CFA Chairman Sen. Howard Metzenbaum (Ret.).

CFA released new data in May showing that bankruptcies continued their sharp decline into the first quarter of this year.

The data, compiled by economist Lawrence M. Ausubel, shows a drop in the per capita bankruptcy rate of 8.4 percent since the first quarter of 1999 and of 14.7 percent in the last two years.

As a result, the bankruptcy rate is now the lowest it has been since before bankruptcy legislation was introduced in early 1997.

Furthermore, a study released in May by three law professors found that nearly half of all bankruptcies filed last year resulted, at least in part, from the financial consequences of serious illness or injury.

And an exhaustive investigation reported in the May 15 issue of *Time* magazine concluded that " ... the notion that debtors in bankruptcy court are sitting on many billions of dollars that they could turn over to their creditors is a figment of the imagination of lenders and lawmakers."

Nonetheless, negotiations on a final bill continued unabated. Furthermore, in order to circumvent procedural hurdles, Senate leaders announced in April that they would bypass a normal conference and instead negotiate behind closed doors.

"I thought I'd seen every trick in the book, but attaching a secretly negotiated bankruptcy bill to completely unrelated legislation already in conference is unbelievable," Sen. Metzenbaum said.

"Cutting the public and the media out of important negotiations at a crucial time will almost certainly lead to a bankruptcy bill that is even harsher than those already passed," he added.

Although negotiations were still in progress as this issue of the newsletter went to press, that concern seemed to be borne out by early results.

For example, negotiators had reportedly agreed:

- to apply harsh IRS living expense standards in Chapter 13;
- to eliminate requirements protecting consumers applying for credit cards on the Internet and forbidding finance charges on card payments made within the "grace period" allowed by a creditor;
- to increase the length of Chapter 13 repayment plans from three to five years for all debtors with incomes over the median; and
- to eliminate sanctions in the Senate bill for creditors who file coercive or unjustified motions claiming "abuse."

At the same time, House negotiators were refusing to agree to a Senate amendment to crack down on wealthy individuals who shelter multimillion dollar homes while stiffing their creditors.

"The bankruptcy bill appears to be going from bad to worse," said CFA Legislative Director Travis Plunkett. "Creditors are even balking at meager requirements to make the bill less one-sided, such as telling consumers the total price of paying off their credit card balance at the minimum rate."

Predatory Lending Bill Endorsed

Rep. John LaFalce (D-NY) and Sen. Paul Sarbanes (D-MD) introduced companion bills in April to halt predatory mortgage lending practices.

"Predatory mortgage lending threatens the American dream of home ownership and is an unconscionable barrier to asset development," said CFA's Director of Consumer Protection Jean Ann Fox. "Hucksters pedaling debt secured by the borrower's investment in his or her home use shameful tricks to extract maximum profits from equity-rich, cash-poor consumers before foreclosing on their homes."

These equity-stripping tactics include fee-padding, balloon payments, and loan flipping. In addition, some lenders charge up-front single premiums for credit insurance that are then added to the mortgage. Others impose penalties for early payment and encourage borrowers to default on their loans.

The bills address these abuses by expanding protections under the Home Ownership and Equity Protection Act to cover more high-cost mortgages, to restrict additional abusive lending practices, and to strengthen consumer rights and remedies.

Fox urged prompt passage of both the predatory mortgage lending bills and H.R. 3823, Rep. LaFalce's bill to "protect borrowers from another form of predatory lending, payday loans."

Regulation of Debt Cancellation, Suspension Contracts Urged

CFA, the Center for Economic Justice, and Consumers Union have called on the Office of the Comptroller of the Currency to regulate debt cancellation and debt suspension contracts.

In comments filed with the agency in March, the groups argued that strict regulation of the contracts is necessary

(Continued on Page 3)

Health and Safety Update:

Enhanced CPSC Enforcement Authority Proposed

Bills have been introduced to enhance Consumer Product Safety Commission (CPSC) enforcement authority and to address important consumer safety concerns related to amusement parks and cribs.

In May, the president sent legislation to Congress to: remove the cap on civil penalties for violations of product safety laws; increase the penalty for "knowing and willful" criminal violations from a misdemeanor to a felony; eliminate the requirement that the agency notify the company that it is criminally violating the law; and give the CPSC greater authority to negotiate safety recalls.

"This bill represents one of the most important pieces of safety legislation introduced in the past decade," said CFA General Counsel Mary Ellen Fise.

"The legislation will increase timely reports of unsafe products, increase consumer product recalls, and, most importantly, reduce injuries and save lives," she said.

CFA has also endorsed legislation introduced by Rep. Edward J. Markey (D-MA), H.R. 3032, to allow the CPSC to regulate rides in fixed-site amusement parks.

"This legislation closes a gaping loophole in CPSC law, which currently prohibits the safety agency from regulating rides in fixed-site amusement parks while allowing authority over mobile rides," said Fise. "That distinction does not make sense, and consumers pay the price in terms of lives lost and injuries incurred."

Under the current system, which relies on spotty state enforcement, there is no comprehensive mechanism for the collection of data about unsafe rides and no compliance authority for inspection of hazardous equipment or for the recall of unsafe or defective ride machinery, Fise noted.

The federal government cannot set safety standards for these rides or invoke its imminent hazard authority to seize amusement ride products that pose imminent and unreasonable risks of death or severe personal injury.

Finally, manufacturers, distributors and others have no obligation to report to CPSC when they learn of an amusement ride that could injure or even kill its patrons.

More than 28 deaths have occurred on rides at fixed-site amusement parks in the last 13 years, and the number of injuries appears to be on the rise. "This bill will help reduce these preventable deaths and injuries," Fise said.

In March, CFA, the U.S. Public Interest Research Group, and 27 state and local consumer organizations announced their support for H.R. 2486, the "Infant Crib Safety Act."

Introduced by Rep. Ellen Tauscher (D-CA), the bill would close a significant loophole that allows cribs known to be dangerous to be sold in the resale market and provided for use by hotels and motels.

Approximately 45 deaths and 9,000 serious injuries occur each year in cribs of unsafe design.

"Focusing on secondhand, hand-me-down, and heirloom cribs is particularly important, as it is estimated that as many as half of all infants born each year are placed in these second-use cribs of unsafe design," Fise said.

New Inspection System Promotes Food Safety Gains

For the first time in many years, the number of cases of food-borne illness in the United State dropped in 1999, the Centers for Disease Control reported in March.

CDC credited the improvement in part to changes in meat and poultry processing driven by the U.S. Department of Agriculture's new meat and poultry inspection system. That system requires companies to test for and limit the presence of disease-causing bacteria in raw meat and poultry.

"Although the new inspection system is showing signs of having some impact, there are substantial weaknesses in the program," said Carol Tucker Foreman, Director of CFA's Food Policy Institute.

The existing program requires USDA to set limits on, and test for, the presence of Salmonella on poultry and meat carcasses and on ground beef and poultry.

CFA has sought to expand the number of Salmonella tests performed, extend the testing to additional products, and include testing of meat and poultry products for other pathogens, such as Campylobacter and Listeria monocytogenes.

In May, President Clinton ordered the USDA and the Department of Health and Human Services to take steps to reduce illnesses and deaths from Listeria monocytogenes by half within the next five years.

Despite the administration's support for this and other improvements to the food safety system, the Office of Management and Budget has attempted in recent months to use the success of the new food inspection program to justify reducing the number of meat and poultry inspectors.

"Inspection resources need to be reallocated, not reduced," Tucker Foreman said.

Ultimately, at least part of the answer lies in creating a single food safety agency and allocating all financial and staff resources in a manner that would increase inspection in a range of product areas, she said.

Bottled Water Study Must Be Strengthened

CFA filed comments with the Food and Drug Administration (FDA) in April arguing that the agency's draft study on the feasibility of informing consumers about the content of bottled water must be significantly strengthened if consumers are to receive the necessary information to make an informed purchase decision.

"Many consumers buy and depend on bottled drinking water to be safer than tap water," said CFA Public Policy Associate Diana Neidle. "It is essential that they receive, at point of purchase, bottled water information at least as complete as that included in the Consumer Confi-dence Reports for tap water."

The Safe Drinking Water Act of 1996 requires the FDA to determine how consumer information comparable to that required for tap water can be made available to consumers of bottled water.

In its comment letter, CFA urged that bottled water labels be required to disclose significantly more information than recommended by FDA, particularly with regard to the levels and health effects of contaminants found in the water and water source and treatment information.

"Consumers should be given complete information at the point of sale, and, if the number or levels of some contaminants change during the course of the year, consumers should be informed," Neidle said.

She argued that sufficient room exists on labels to provide complete information and that changes could be handled through temporary stickers or bottle hangers.

"The public health benefits outweigh any added costs to the bottled water industry," she said..

Food Conference Hears Different Views on GE Foods

Food and agriculture leaders offered different perspectives on genetically engineered foods at CFA's April food policy conference.

In a lunch speech, Agriculture Secretary Daniel Glickman conceded that, so far, GE foods have offered little benefit to consumers. As a result, he said, it has been hard to convince the public of their value.

But Glickman said he feels biotechnology has "enormous potential for consumers, for farmers, and for the millions of hungry and malnourished people in the developing world."

Glickman said he expects the next generation of biotechnology products to have direct consumer benefits such as better taste, improved nutrition, and a longer shelf life. And this time around, he said, these products should be "swimming in information about their advantages."

The role of government is to make sure that genetically engineered food products "are safe, both for human consumption and for the environment," Glickman added.

To ensure the government review process is played out publicly and thoroughly, he called on the National Academy of Sciences to establish a committee to continually review USDA's biotech regulatory process.

Earlier in the conference, Rockefeller Foundation President Gordon Conway said genetically engineered foods are needed to feed the growing ranks of the world's poor and hungry.

A renowned British-born agricultural ecologist, Conway added the strong caveat that safety of these foods must be proved and that foods including genetically engineered organisms must be labeled.

But Conway repeatedly voiced concern over some 800 million chronically undernourished people in the world and more than a hundred million grossly underweight children. While there are "many things we can do" to help these people, he said, without biotechnology "I don't think it's going to be enough."

Conway called on U.S. consumers to help assure that genetically engineered foods are used to benefit the "poor and excluded" worldwide.

Shortly before Conway's address, Under Secretary of State for Economics, Business, and Agricultural Affairs Alan Larson told the conference the mishandling of "mad cow" disease and other European food safety problems contributed to "unwarranted doubts" about genetically altered foods on that continent.

Larson also criticized Europe's "precautionary principle," suggesting it has triggered "cavalier, arbitrary or unpredictable decisions" on imports. Withholding a food product from the European market until it's certain it is risk-free sets "a standard that cannot be met," he said.

Food and Drug Administration Commissioner Jane Henney also discussed genetically engineered foods, summarizing what FDA heard in a series of highly publicized public meetings on GE foods. She conceded that FDA's process for overseeing GE foods' development and marketing could be more open.

Her comments foreshadowed an FDA announcement in May that, among other things, the agency will seek to distribute industry information on new genetically engineered products to the public through its website.

Henney also surprised the conference by saying the government's much-touted "food safety initiative" should be broadened to include pesticide residues and other chemicals. Right now, it is limited to food-borne pathogens.

Nancy Donley

Nora Pouillon

Donley, Pouillon Receive Golden Carrot Awards

Food safety advocate Nancy Donley and premier organic restaurateur Nora Pouillon were honored at the 2000 Golden Carrot Awards Reception, held on the first night of CFA s National Food Policy Conference.

Donley, president of S.T.O.P., for Safe Tables Our Priority, was cited for playing a key role in convincing the Agriculture Department to modernize its antiquated meat and poultry inspection system. She became active in food safety issues after her son died from eating E. Coli-contaminated hamburger in the early 1990s.

Pouillon was recognized for her pioneering efforts to popularize reduced-pesticide food at her two Washington restaurants, Restaurant Nora and Asia Nora. Last year, Restaurant Nora became the first certified organic restaurant in the nation.

The Golden Carrot Awards were started 18 years ago by the nonprofit advocacy group Public Voice for Food and Health Policy. With the 1999 merger of Public Voice into the Consumer Federation of America, CFA has continued the awards.

States Provide Good Online Insurance Information

The web pages being constructed by state insurance regulators are of generally high quality, particularly considering the relatively brief time states have had to develop these pages, according to an evaluation released by CFA in March.

Over half the population lives in states with excellent web page information (15 states), according to the report by CFA Insurance Director J. Robert Hunter. Fully 97 percent of the population lives in states with at least good information (40 states).

Only five percent of the population lives in states with poor or no web-based information available. These consumers live in 11 states, of which only three have no web page at all.

"The states are doing a good job of utilizing the new technology, but much more can be done," Hunter said. States with "A" ratings and those identified by CFA for special merit provide "clear models" the other states can use to improve their websites, he said.

Sites pointed out for special consideration were: Washington, for "clear, hard-hitting" information for consumers; Oregon and Wisconsin, for putting market conduct and financial exams up on their sites; New York, for using their site to webcast hearings; Texas, for providing information on companies useful to consumers; and Missouri, for releasing auto underwriting guide information on their web page.

The website review is the latest in a series of studies by Hunter evaluating the quality of information state insurance departments provide to consumers. Recent evidence suggests that those studies are having an impact.

After Hunter sent states a draft of the report, more than 30 responded with comments, the majority of which pointed to improvements they either had made since the site was evaluated or were in the process of making.

"It showed a great interest by insurance regulators in making sure they got a good grade," Hunter said. He said he took that as a sign that many insurance departments are "trying to do better," and "that is a positive thing for consumers."

The report also included several recommendations for the National Association of Insurance Commissioners (NAIC) to improve their web-based services.

First and foremost, Hunter called on NAIC to set up a center to allow on-line complaints. After the complaint is received, the NAIC could send it on to the state for processing, he said.

Hunter also urged the NAIC to create a national complaint ratio service, so that all consumers could have access to credible complaint/service information on all companies, by line of insurance, on-line.

"You have almost two million records on consumer complaints, which could be used for creating extremely useful complaint information for consumers," he said. "This data would enable consumers to spot trends in service and avoid buying coverage from companies with bad track records," he added.

Finally, the NAIC should establish itself as the arbiter of safe, trustworthy private Internet sites, Hunter said.

Such a platform would help consumers avoid "the pitfalls of sites that link only to paid advertisers or to sites with no low-cost providers listed because the site is collecting commissions," he explained.

"In other words, the NAIC should assist consumers in helping to ensure the transparency and completeness of the information they rely upon to make their insurance decisions," Hunter concluded.

For a copy of the study, send $10 prepaid to CFA, Insurance Department Website Report, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

Structural Flaws Mar Electricity Markets

Conflicting goals, utility market manipulation, and ineffective policy responses by federal policy makers threaten the reliability of the nation's electricity network and consumers' electricity bills, according to a report released in April by CFA.

"The wild price spikes in 1998 and widespread outages in 1999 are indicators of fundamental problems in restructuring electricity markets," said CFA Research Director Mark Cooper, author of the report.

"The need for aggressive public policy is obvious, but neither the Congress nor the Federal Energy Regulatory Commission (FERC) is moving with any great speed to address critical issues," he said.

The report concludes that structural flaws and institutional failures have created a volatile and dangerous situation.

Specifically, competition reduces the incentive for market participants to cooperate and makes it difficult for system operators to manage the electricity network. Meanwhile, inadequate transmission capacity, ineffective network management, and manipulation of access to transmission limit the ability of power to flow.

Highly concentrated local markets enable large generators to drive up prices by withholding supplies, but federal regulators keep approving mergers.

As a constraining bottleneck to expanding supply, the transmission system facilitates manipulation of price and supply, and a lack of incentives for utilities to keep capacity on line or to discipline their bidding for power overheats the market.

Finally, a complete absence of objective, public information about prices and market conditions prevents buyers from making sound decisions.

"Proper management and expansion of the transmission network are the keys to promoting electricity reliability and preventing the abuse of market power," Cooper noted, "but FERC is taking a hands off attitude toward the formation of Regional Transmission Organizations (RTOs), and Congress has failed to give FERC the additional tools it needs to crack down on abuse in a new market."

The report offers a series of detailed, practical recommendations to FERC to prevent consumer abuse as a supplement to the recommendations CFA has made for federal legislation.

These steps, already within FERC's power, include requiring RTOs to operate independently with adequate authority to expand and manage the transmission network in an open manner and making approval of mergers and market-based rates contingent on membership in an approved RTO.

Where utilities are not part of an RTO, the report recommends that FERC review existing market-based rates and revoke those rates for any vertically integrated utility that: has its generation in a supply market that is concentrated according to the Justice Department merger guidelines; controls more than 20 percent of the bottleneck transmission assets in an area where it also owns generation; accounts for more than 35 percent of demand; or has engaged in market tightening behavior and then sold power at inflated prices into that market.

"With well over half the electricity in the country consumed in states that have enacted restructuring plans, structural problems in the interstate market must be addressed by public policy to improve the performance of these markets, promote competition, and protect consumers from abuse," Cooper said.

"The longer Congress takes to address these problems, the longer the states will have to wait to effectively deliver on the promises made to consumers about electricity restructuring – lower prices, higher quality service, and more real choices," he concluded.

The report is available for free on CFA's website at www.consumerfed.org/electmkt.pdf. To obtain a print copy, send $10 prepaid to CFA, Electricity Market Report, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

Consumer Credit Update,

Continued from Page 1

because the market for these products is characterized by reverse competition.

"Consumers are simply not able to exert the necessary market power for a normally, or workably, competitive market to operate for these products," Fox said. "Furthermore, the massive profits for lenders issuing these products are a powerful inducement for unfair and coercive sales practices."

Debt cancellation and debt suspension contracts (DCC/DSC) are similar to credit insurance in that they are marketed to consumers as a means to protect the consumer and his or her family in the event of death, disability, or involuntary unemployment. However, DCC/DSC products are not subject to state credit insurance laws.

Unless the OCC steps in to regulate DCC/DSC products, the groups argued: consumers will face misleading information and insufficient benefits; fees will be grossly excessive, with lenders realizing upwards of 80 percent or more of fees paid for the product as profit; and consumers will have no assurance that lenders' sale of DCC/DSC will not adversely affect the financial condition of the lender.

Furthermore, failure to regulate DCC/DSC sales practices and fees will undermine state regulation of credit insurance, the groups contended. They urged OCC, in regulating DCC/DSC, to coordinate closely with state credit insurance regulation.

Savings Report,

Continued from Page 4

also revealed by the ORC survey. On average, respondents said they expected 29 percent of their retirement income to come from Social Security, with lower income households expecting more of their retirement income to come from Social Security than higher income households.

Savings "Toolkit" Website Available

In order to encourage more Americans to get into the retirement savings habit, DirectAdvice.com and CFA are making a "retirement savings toolkit" available on CFA's website at www.consumerfed.org.

The toolkit features five financial calculators prepared by experts at DirectAdvice.com and designed to provide an easy starting point for those who want to start saving.

The calculators show: how a regular habit of saving small amounts can add up to big money over time; the power of compounding interest as a way to make money grow; the best asset allocation mixes when saving and investing; how to get the most out of an IRA; and why it makes sense to maximize an employer "match" in a company retirement plan.

"The calculators are intended to be a starting point only," cautioned Brobeck. "They do not provide all the information needed to draw up a comprehensive financial plan."

The study and survey are also available on the CFA website. For a print copy of the study and survey send $10 prepaid to CFA, Retirement Savings Study, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036.

CFAnews

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Americans Behind in Saving for Retirement

The United States may be in the midst of the longest running economic boom in its history, but more than half of American households (56 percent) are behind where they should be in saving for a comfortable retirement, according to a study released in April by CFA and DirectAdvice.com.

A related opinion survey found that an even larger majority of Americans (59 percent) expect that their standard of living in old age will be lower than it is now.

The study and the opinion survey reveal three important factors that explain most differences in household retirement savings: the level of household income; the development of a financial plan; and participation in an employment-related retirement program.

"The bad news is that most U.S. households will not be able to sustain their present standard of living into retirement," said CFA Executive Director Stephen Brobeck. "The good news is that most of the unprepared households could get ready by taking advantage of the magic of interest compounding."

"Research shows that people with a financial plan have twice the money saved for retirement as those without," added DirectAdvice.com President and Chief Executive Officer Brian L. Hollander. "Technology and the Internet make it easier than ever today to develop a financial plan that will work for you."

The study was prepared for CFA and DirectAdvice.com by economist Catherine P. Montalto, a professor at Ohio State University. It applies a previously published methodology to data from the Federal Reserve Board's 1998 Survey of Consumer Finances.

The adequacy analysis compares the resources available to the household for spending during retirement to the resources needed to maintain the household's pre-retirement level of living throughout the retirement years.

Using this criteria, it concludes that only 44 percent of households with a currently employed householder will accumulate adequate retirement savings.

Americans Know Their Savings Are Inadequate

A related public opinion survey conducted by Opinion Research Corporation produced similar results.

Only 36 percent of respondents said that, "if [they] retired at age 65, [their] retirement savings including Social Security would provide the same or a higher standard of living than [they] currently enjoy."

Another 40 percent said that these savings would provide a "lower but adequate standard of living," while 19 percent said the savings would supply a "less than adequate standard of living."

Both Montalto's Fed-based study and the ORC opinion survey revealed that income is the demographic variable most closely related to household levels of retirement savings.

According to Montalto's analysis, only 27 percent of households with less than $10,000 in annual income and 23 percent of those with incomes between $10,000 and $25,000 will have adequate retirement savings to maintain their standard of living.

By contrast, 54 percent of those with incomes between $50,000 and $100,000 and 69 percent of those with incomes over $100,000 will be able to retire with adequate savings, the study found.

Similarly, the opinion survey found that only 23 percent of those with household incomes under $15,000 and 36 percent of those with incomes between $15,000 and $25,000 expect to retire at age 65 with the same or a higher standard of living than they now enjoy.

By comparison, 44 percent of those with incomes above $50,000 expect to retire at 65 with the same or a higher standard of living.

The lack of a perfect fit between incomes and retirement savings adequacy can be explained, in part, by the fact that low-income households need lower incomes than do upper income households to maintain their standard of living in retirement.

Planning Increases Savings

Another explanation can be found in the willingness of households to develop a financial plan that anticipates retirement.

Respondents to the opinion survey who said they had developed a financial plan were far more likely to say they were prepared for retirement than were those who had not.

Nearly half (49 percent) of those with a plan, but only 23 percent who had not developed a plan, said they expected to retire with the same or higher standard of living. Only one in ten of the planners (compared with 26 percent of non-planners) said their standard of living would be less than adequate.

Gaining access to an employment-related retirement plan is also important.

Montalto's research found, for example, that an estimated 55 percent of those participating in an employer-sponsored retirement plan would have adequate retirement savings, while only 24 percent of those not in such a plan would have adequate retirement wealth.

According to the 1998 Fed data, 18 percent of households are currently part of a defined benefit pension plan, while 33 percent currently participate in the rapidly growing category of defined contribution plans.

Lower income workers are the least likely to participate in these retirement plans, with only 11 percent of those with incomes under $10,000 and 33 percent of those with incomes between $10,000 and $25,000 participating in such plans, according to Fed data.

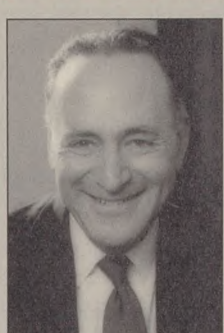
By contrast, 77 percent of those with incomes between $50,000 and $100,000 and a nearly equal share (76 percent) of those with incomes over $100,000 participate in these plans.

"Retirement savings would dramatically increase if all workers had access to a retirement plan at work," Brobeck said. "Payroll deductions are the easiest way to save, and matched contributions provide a powerful incentive to do so."

The importance of Social Security to ensuring adequate standards of living was

(Continued on Page 3)

30th Annual Awards Dinner



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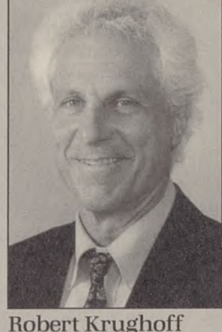

Robert Krughoff

Marian Burros

The Consumer Federation of America will honor distinguished consumer service at its 30th Annual Awards Dinner in June.

Sen. Charles E. Schumer (D-NY), Rep. Maxine Waters (D-CA), and Securities and Exchange Commission Chairman Arthur Levitt will receive Philip Hart Public Service Awards.

The Esther Peterson Consumer Service Award will be presented to Robert Krughoff, President of the Center for the Study of Services, which publishes *Checkbook* Magazine.

New York Times Food Columnist Marian Burros will receive the Betty Furness Consumer Media Service Award

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