



CONSUMER FEDERATION OF AMERICA

## States Urged to Reform Abusive Insurance Practices

**R**esponding to anti-consumer insurance industry practices that have recently come to light, CFA has called on state insurance regulators to bar insurers from using certain rating practices that lead to unjustified price increases for consumers.

In the first instance, CFA's call for action came in response to an internal GEICO document indicating it sets auto insurance rates using drivers' level of education and occupation, unfairly raising rates for many lower income and minority consumers.

The second request for regulator intervention was prompted by an announcement by Risk Management Solutions (RMS), a purveyor of computer models used by insurers in setting homeowners insurance rates, that it was dramatically altering its procedures for estimating the future risk of hurricane damage in a manner that will cause double-digit rate increases for homeowners along the eastern and southern coastline.

The GEICO rate-setting practices are outlined in an underwriting guide filed with the New Jersey insurance commissioner.

The document shows that "GEICO is pulling an underwriting sleight of hand that allows it to skirt existing prohibitions on the use of income and race to determine insurance rates and eligibility," said CFA Director of Insurance J. Robert Hunter.

"Educational attainment and occupation are directly linked to income, which cannot be used in determining insurance eligibility or rates because of its serious adverse impact on lower income and minority consumers," he added.

### Less Educated Forced to Pay Higher Rates

GEICO uses four separate insurance companies, each of which charges drivers different base rates. According to the guide, drivers whose highest level of education is a high school diploma are ineligible for the company that charges the lowest rates.

"These individuals are not even informed that they are being rejected by the preferred GEICO company due to their educational status alone," Hunter said.

Under the criteria outlined in the GEICO document, a factory worker with a four-year college degree in New Orleans would pay 90.75 percent more for coverage than an attorney with a professional degree who otherwise has the same qualifications and driving record, CFA found.

"Nationally, the average surcharge being applied by GEICO for earning less is over 40 percent," Hunter said.

Rating methods normally require approval by departments of insurance and must be included in rate manuals that are usually

made public. Because insurance commissioners often do not collect or review underwriting guides, however, it is likely that these methods have been overlooked, Hunter said.

In a March letter to the National Association of Insurance Commissioners (NAIC), CFA and New Jersey non-profit insurer NJ CURE urged NAIC to act to end this practice before competitive pressures lead to broader use of these harmful criteria.

"If an insurer sees competitors doing this and believes the competitors will take away their richer clients, to whom they could sell home, life, boat insurance and banking products, the insurer may feel forced to adopt this approach," they wrote. "We urge you to prohibit this practice before it becomes more widespread."

### Insurer Pressure Seen Behind RMS Method Change

The RMS announcement regarding its hurricane damage estimate models raises concerns that it is bowing to pressure from insurers, on whom the company depends for significant financial support, Hunter said.

"RMS has dramatically altered the scientific methodology that is being used to predict hurricanes and set consumer rates without

offering a justifiable reason," Hunter said. "They are breaking promises that were made to consumers over a decade ago when more sophisticated weather modeling was introduced."

In the aftermath of the unexpectedly high damage caused by Hurricane Andrew, insurers turned to computer catastrophe modelers like RMS for new approaches to setting rates for catastrophe insurance coverage based on either a 1,000- or 10,000-year weather forecast.

Consumers were told that the increase in rates resulting from the new computer catastrophe models would lead to greater rate stability, because catastrophic storms would already have been anticipated when rates were set.

However, the new RMS model establishes rates on a five-year time horizon, which is expected to be a period of higher hurricane activity.

"The process used by RMS to radically alter its catastrophic model demonstrates that state

regulators do not exercise meaningful oversight of risk classification procedures and insurers' use of third party vendors to avoid regulatory oversight and public accountability," said Center for Economic Justice (CEJ) Executive Director Birny Birnbaum.

In an April letter to NAIC, CFA and CEJ called on NAIC and state regulators to:

- reject the new RMS wind model as the basis for any rate increase and examine how this new model was developed;
- exercise existing regulatory authority or seek additional legal authority to regulate third party organizations, such as RMS, whose work has a significant effect on insurance rates and availability; and
- update NAIC model laws and regulations for homeowners and auto insurance to provide greater public accountability for insurers' rating practices and the use of third party vendors in insurance rate setting and to address the consumer harm that results from the use of unjustified rating factors.

### On the Web

[www.consumerfed.org/pdfs/NAIC\\_RMS\\_modeling\\_release040406.pdf](http://www.consumerfed.org/pdfs/NAIC_RMS_modeling_release040406.pdf)  
[www.consumerfed.org/pdfs/auto\\_insurance\\_GEICO\\_release032006.pdf](http://www.consumerfed.org/pdfs/auto_insurance_GEICO_release032006.pdf)

## IRS Proposal Threatens Taxpayer Privacy

**C**onsumer groups have urged the Internal Revenue Service (IRS) to change proposed regulations in order to prohibit tax preparers from selling client tax returns to third parties for marketing purposes.

CFA, the National Consumer Law Center (NCLC), and U.S. Public Interest Research Group filed comments with the IRS in March opposing its recent proposal to eliminate the existing restriction that permits tax preparers to share client information for marketing purposes only with affiliates.

If the proposed change is adopted, tax preparers would be permitted to share the contents of a consumer's entire tax return with an unaffiliated business for marketing purposes, provided the consumer signed a consent form.

The proposal generated an outcry from the public and both sides of the aisle in Congress after it received extensive news coverage.

The Senate Finance Committee has held hearings on this and related issues, and Sen. Barack Obama (D-IL) introduced legislation, S. 2484, that would prohibit tax preparers from disclosing taxpayer information to unaffiliated third parties, with certain narrow exceptions.

Consumer groups, including CFA,

endorsed the legislation in an April letter as "a good start in eliminating the dangerous gaps in taxpayer privacy protections created by IRS regulations." They added, however, that "taxpayer return information is so sensitive that it should never be shared, sold, traded, or used for secondary purposes, including to cross-market ancillary products by any company."

One concern with the proposed change is that it would expose consumers to new security risks.

"The IRS would allow tax preparers to sell a consumer's return to companies that have a terrible track record of safeguarding information from identity thieves," said Beth McConnell of the Pennsylvania Public Interest Research Group Education Fund, testifying on behalf of several consumer groups, including CFA, at an IRS hearing in April.

"Identity thieves will see this information as one-stop shopping to make it easier for them to commit fraud," she added.

Another concern is that, even though the rule requires express written permission from the consumer before information can be sold, consumers will nonetheless

unknowingly sign consent forms.

In earlier written comments on the proposal, consumer groups praised IRS changes that make it harder for tax preparers to bury consent requests in the middle of long documents or to write the forms using confusing and technical language.

However, that does not ensure that consumers will be fully aware of their actions when they read and sign the documents, the groups warned. "Even though it will be a stand-alone document, the consent form will become another document in a stack of papers thrust upon taxpayers at the end of a long process."

Added CFA Consumer Protection Director Jean Ann Fox: "A consumer has a strong trust relationship with her tax preparer and is likely to just follow along as she's told to sign form after form. Slipping a form in the shuffle of papers that would allow the tax preparer to sell her return is a violation of that trust."

Although the IRS ended its formal public comment period on the proposed rules in March, it continued to accept public comments after the April hearing.

### On the Web

[www.consumerfed.org/pdfs/IRS\\_hearing\\_release040306.pdf](http://www.consumerfed.org/pdfs/IRS_hearing_release040306.pdf)

## State, Rural, Ethics Issues Highlighted

Speakers highlighted state-level priorities, rural issues, and the need for political reform in Consumer Assembly keynote addresses.

Iowa Attorney General Tom Miller focused on state preemption and predatory lending in his keynote address. Glenn English, Chief Executive Officer of the National Rural Electric Cooperative Association, discussed electricity policy. And Common Cause President and CEO Chellie Pingree discussed the need for political reform.

The founding fathers gave states and the federal government each certain powers in order that they could serve as a check on each other, Miller said. "But today, players in the system work against that wisdom and work against the spirit of the constitution and those principles, by working against the states through overuse of preemption."

Although the preemption efforts cut across many issues, "probably the one that concerns me the most is predatory lending," he said.

In this area, the Comptroller of the Currency has used his administrative power to try to preempt a whole series of state laws and state enforcement efforts that are effective in combating predatory lending, he said.

Preempting states' ability to enforce these laws is particularly "outrageous and harmful for consumers," Miller said, because "no matter who the Comptroller is, he or she doesn't have the resources to protect consumers in 50 states."

While these efforts are similar to those in



Iowa Attorney General  
Tom Miller



Common Cause  
President Chellie Pingree



NRECA Executive Director  
Glenn English

the Reagan administration, Miller said he sees a difference. "In the Reagan Administration it was primarily driven by ideology and philosophy, whereas here I think it is primarily driven by politics and influence of special interests," he explained.

### Public Financing of Elections Urged

This sort of influence of money on policy cuts across virtually all the issues of concern to consumer advocates, Pingree said. During her days in the Maine legislature, she said, it was "one of the shocking life lessons how money plays such an important role in politics and why it is important to be fighting on the other side."

She said she sees public financing of elections as key to fighting that influence.

The majority of state legislatures now run under publicly financed "clean election" sys-

tems, she said. And she predicted that public financing of federal elections could "come back into the dialogue, particularly in this climate."

The recent scandals, such as the Abramoff scandal, provide an opportunity to discuss these issues, she said, but it also forces a delicate balance between stirring up voter anger in support of reform and making people so cynical they stop voting.

"The truth is you have to keep differentiating between what is really bad behavior on the part of legislators and what is a bad system that has to change," she said.

### Electricity Providers Face Tough Choices

The cooperative structure gives rural electric utilities the ability to act in consumer interests in ways other corporate entities may not, English said. "This particular form of

business has been very successful in staying off greed and keeping the interests of their members at heart."

That will be particularly important over the next several decades, as the electric industry faces the challenge of adding capacity at a rapid rate and in a difficult environment, he said.

"Some decisions that will have to be made in this process are extremely important to consumers throughout this country," he said, because they will drive the price of electricity and the reliability of the system.

In addition to rising construction costs and difficult decisions about what fuel to use, "there's another factor that enters into this entire mix ... and that is the grid," he said.

"The transmission system that we rely on today was not built to do what we're asking it to do," he explained. "And it also now has become advantageous to those who do own generation and also do own transmission not to make that transmission too available to competition."

The new focus on reducing dependence on foreign oil by developing renewable energy sources poses its own set of complex issues, he said. That shift will only come about if public policy is adopted that puts renewables on an equal footing with oil.

"Cost is important. Rates are important. Reliable power is important. And safety is important," he said. "We need to make certain that we can deliver and do so at the lowest possible cost."

## Consumer Movement Faces Challenges, Opportunities

The consumer movement today faces huge challenges, but also enormous opportunities, Consumers Union President Jim Guest said in a keynote speech at Consumer Assembly.

To turn those challenges into opportunities, the consumer movement will have to "do things better and smarter with better focus and persistence," Guest said.

While the 20th century consumer movement "was focused in large measure on protecting consumers" through public policy efforts, Guest said he sees the 21st century consumer movement as having "an extended mandate."

"The 21st century consumer movement is about engagement," he said, "about getting the attention of concerned citizens and showing them how individually and collectively they can make a difference."

"It's about taking action and exerting influence directly in the marketplace itself, not just on public policy," he said.

The Internet, in particular, offers a powerful opportunity for consumer advocates to connect with individual consumers and, in turn, to enable consumers to connect with each other in ways that help them to turn "personal concern into political action," he said.

The key to success, Guest said, is: to be creative, in order to break through the noise and get attention for our issues; to be engaging, bringing consumers together to share concerns with each other and with advocates; to

be open to forging unusual alliances, which can help to gain the attention of both the media and regulators; to capitalize on state level opportunities, where opportunities currently are greater than they are at the federal level; and to share widely, helping people to get their voices heard.

"The 21st century consumer movement is really about engaging and empowering consumers in new ways to join us in our fight" in order to "tip the balance of the marketplace back in the favor of consumers," Guest concluded.

### Advocates Face Difficult Political Environment

Most conference participants seemed to agree that the current political environment poses an enormous challenge for the consumer movement, particularly at the national level.

Scott Keeter, Director of Survey Research for the Pew Research Center, provided a detailed picture of that political environment in a session on "Consumer Concerns and Priorities: Recent Survey Findings."

"The country's mood overall is very sour right now," he said, despite many economic indicators that are fairly positive. In addition, he said, "we have the most polarized situation in America by partisanship now that I have ever seen in my life of doing public polling."

On a range of questions — including the state of the economy, whether the government is run for the benefit of everyone, and the power of big corporations — the gap



Consumers Union President  
Jim Guest

between Democrats and Republicans has become very large.

However, there are also serious schisms within the parties on a number of issues, he noted, making it particularly difficult to assess the politics

of individual issues.

John Sateja, Senior Vice President of Information Products at Consumers Union, described two recent surveys they have conducted, one tracking consumer issues and other looking at what appeals to consumers and how to engage them.

While consumers' overall perception of the state of consumer protections is fairly good, they express serious concerns about particular issues. These include health coverage, prescription drugs, the influence of industry lobbyists on policy, childhood obesity, interest rates on credit cards, identity theft, and fuel conservation.

### Support Exists for Reforms

These represent "opportunity areas for advocacy," he said.

To be effective, advocates must frame issues in a way that is understandable, defines the problem, provides a sense of urgency, provides a clear and important individual or

social benefit, and suggests a specific solution that is actionable by the consumer, he said.

Many of these same messages were echoed in a panel on "The Consumer Movement: Present Status, Future Prospects."

Although national consumer groups currently find themselves in a largely defensive posture, "there's still a lot of life left in the consumer movement," said *Washington Post* Consumer Reporter Caroline Mayer.

"A lot of the action is local," she added, and a lot of the energy and progress is coming from individual consumers using the Internet.

Chris Meyer, Vice President for External Affairs and Information Services at Consumers Union, said one of the challenges for consumer advocates is to give those consumers the skills they need to "be in charge of what they are consuming."

He also agreed that states offer opportunities for progress. "It's still, I think, easier to move things locally than at the federal level," he said. "The energy that I see at the states is great, better than ever," he added.

Among the challenges the movement faces, they agreed, is a more sophisticated business community with extensive resources to dedicate to fighting consumer initiatives.

On the positive side, advocates have also become "more skillful," Mayer said. "I think your research is deeper and better thought out, and the people you have here know the subject and know it well."

# Investor Protections Remain A Priority

Despite the recent push-back against regulations, protecting investors remains a priority at the federal level, Sen. Paul Sarbanes (D-MD) and Securities and Exchange Commission (SEC) Chairman Christopher Cox said in Consumer Assembly keynote speeches.

Sen. Sarbanes, who received a special lifetime achievement award at the conference (see box), used the occasion to defend the landmark corporate reform legislation that bears his name.

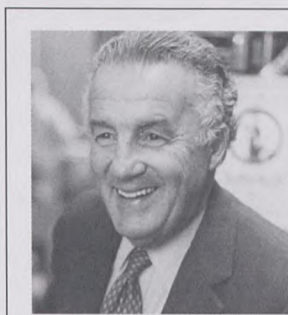
The defense came at a key time, as the constitutionality of the Public Company Accounting Oversight Board created by the Sarbanes-Oxley Act is being challenged in court, members of the business community are complaining about its costs and even the necessity for its reforms, and an SEC advisory group has advocated exempting most public companies from one of its key provisions.

The Sarbanes-Oxley Act "came in direct response to a crisis whose dimensions in retrospect can all too easily be downplayed," Sen. Sarbanes said. "Critics who now attempt to minimize the seriousness of the situation should not go unchallenged."

He noted, for example, that the *Wall Street Journal* characterized the accounting scandals the legislation was enacted to address as exceeding anything since the Great Depression.

While some argued that the problems involved "a few bad apples ... we concluded that there were systemic, structural defects" that needed to be addressed, he added, including lack of auditor independence, ineffective regulatory oversight of auditors, and lax standards of corporate governance.

"Now I think the law is working as intended," Sen. Sarbanes said. He noted, in particular, strides that had been made in restoring auditor independence, providing the necessary regulatory framework for accountants through the Public Company



Sen. Paul Sarbanes (D-MD)



SEC Chairman Christopher Cox

Accounting Oversight Board, improving SEC resources, and improving corporate governance practices.

## Criticisms Called Unfounded

Sen. Sarbanes dismissed as unfounded the pending legal challenge to the constitutionality of the PCAOB. Several leading legal experts approved the structure at the time the legislation was being drafted, and recent analysis has affirmed the earlier finding, he said.

Many of the complaints surrounding the Sarbanes-Oxley Act have focused on the costs of its requirement that companies certify the adequacy of their internal controls to ensure the accuracy of financial statements and that auditors attest to the accuracy of that certification.

"There's no question that costs are involved," Sen. Sarbanes said, "particularly if the system of internal controls is found wanting." He voiced opposition, however, to recommendations of the Advisory Committee on Smaller Public Companies, which would exempt 70 to 80 percent of all public companies from some or all of the internal controls requirements.

"Cost reduction and investor protection do not require an either-or choice, but rather a reasonable and responsible accommodation," he said.

Furthermore, critics of the requirement ignore evidence of its benefits, which are emerging, he said. The law "enables companies to manage risk and uncover control weaknesses" and, as a result, "boosts operational performance," he said.

"The framework that's now in place goes a long way toward ensuring the transparency and integrity of the markets," he said. "This is a time to move forward, not backward, in a steady, deliberate manner. Any problems can be resolved without undoing the framework."

## SEC Targets Scams Against Seniors

Chairman Cox also emphasized the need for new efforts to protect investors in his keynote speech. In particular, he unveiled a new SEC initiative to protect older Americans from investment scams.

"Households led by people 40 or over already own 91 percent of America's net worth," he explained. "The impending retirement of the baby boomers will mean that very soon the vast majority of our nation's net worth will be in the hands of the newly retired.

"Following the Willie Sutton principle, scam artists will swarm like locusts over this increasingly vulnerable group — because that's where the money is," he said.

In response, the Commission is launching "several new initiatives aimed specifically at

helping older Americans prevent investment fraud," he said. In addition to new investor education efforts "focused on areas where seniors may be most vulnerable," the SEC's regional and district offices have come together to propose a comprehensive national strategy for protecting older investors, he said.

As part of that program, the Commission will work closely with state and local law enforcement and federal and state regulatory agencies to target scams aimed at seniors, bringing both civil and criminal actions, he said. Examiners in field offices will share regulatory intelligence with their counterparts at the state level and other regulators to better identify firms that may be preying on seniors and scrutinize their activities, he added.

In addition, the Commission plans to reach out to local community organizations and enlist their help in educating older Americans about investment fraud and abuse, he said.

Efforts are already well underway in California, and are being stepped up in Florida, where a particular focus is on "marketing vehicles that lure seniors to sales seminars ... with promises of the proverbial free lunch."

"This is going to be an all-out effort, bringing together the SEC, the NASD, and Florida's own examiners," he said. "If we find that, instead of a legitimate sales seminar and a free meal, seniors are being exposed to pitches for unsuitable products with high-pressure sales tactics, wild claims about projected returns, and no disclosure of the actual risks of an investment, we'll move in hard and fast."

"The SEC's experience thus far tells us that

these sales pitches are anything but free," he said. "They come with a very high cost. And so we're quite serious about attacking the problem from all angles, at every level of government, and with every weapon in our arsenal — from investor education, to aggressive investigation, to strong prosecution."

## Improving Investor Information a Priority

Chairman Cox also discussed the need to improve investor disclosures, saying "there's just too little usable investor information."

Calling plain English the "new official language of the SEC," Cox said he is "committed to making certain that the average investor has all the information she needs, and in a form she can understand. It's what distinguishes investing from roulette."

In addition to "translating legal gobblede-gook into plain English," initiatives in this area will include improved information on mutual funds, better information on executive compensation, and increased use of interactive data, he said.

On the issue of executive compensation disclosure — where Chairman Cox has proposed to require disclosures that treat all compensation, including perks, retirement benefits, and golden parachutes as well as salary, in same the way — he noted that he is often asked "whether all of this will be enough to rein in the abuses of excessive compensation in some companies."

"The truth is, we won't know until we try," he said. "But I do know one thing. People forced to regularly undress in public do pay more attention to their figures."

"In all that we're going at the SEC, our goal is to put investors in the driver's seat, and give consumers more control over their money," he concluded.

## Sarbanes Honored for Lifetime Consumer Service

In a presentation before his keynote address, Sen. Paul Sarbanes (D-MD) received a special Lifetime Achievement Award from CFA in recognition of his tireless work on behalf of consumers during four decades of public service.

The senator, who has announced that he will not seek reelection after his present term ends in January, was praised both for his legislative leadership and accomplishments and for his exemplary character as a public servant.

"Since his election to the House of Representatives more than 35 years ago, consumers have had no better friend in Congress," said CFA Executive Director Stephen Brobeck, who presented the award.

"During this time, he has consistently and effectively sought to advance the consumer interest in the context of the broader public interest," Brobeck added. "That is why, when CFA presented the senator with the Philip Hart Public Service Award in 1994, we characterized him as a Lifetime Consumer Hero."

Among other exceptional contributions, the senator was recognized for his leadership in fighting predatory lending practices and ensuring fair securities markets.

In the latter instance, which was also the focus of Sen. Sarbanes' keynote address, Brobeck praised him for having "brilliantly led efforts to pass far-reaching legislation regulating the accounting industry. With great skill and patience, he built bipartisan support for a strong bill in the face of ferocious lobbying by the industry."

"It is clear to us that, throughout your four decades of public service, you were motivated not by personal ambition, but by a desire to discharge your public obligations and be of service to society," Brobeck said.

"It is also obvious to us that the ethic you have practiced as a legislator defines a standard which all policymakers should try to uphold," he added. "You believe it is essential to be well informed about issues. You think it is important to respect other legislators and their views, even when they disagree with your own. And you are committed to always acting with integrity and decency."

"You are one of the great ones," he concluded.

## CFAnews

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CFAnews is published eight times a year. Annual subscription rate is \$25 per year.  
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## Research Wrap-up

### Fuel Efficiency Varies Widely within Vehicle Class

Fuel efficiency varies by at least 100 percent within most vehicle classes, according to a CFA analysis of EPA mileage ratings for 2006 vehicles released in February.

These findings mean consumers don't have to buy a small car to save on gas. They can cut their gas consumption by shopping carefully within the class of car they are considering buying to find those with the best mileage.

"Consumers can save hundreds of dollars a year by simply buying a higher rated subcompact, SUV, or minivan, and our nation can dramatically reduce our dependency on foreign oil at the same time," said CFA Public Affairs Director and *Car Book* author Jack Gillis.

The report introduces a new mileage rating scale, identifies the cars within each vehicle class with the best and worst mileage ratings, and provides an estimate of the annual difference in fuel costs between the two.

It also documents the potential reductions in oil imports that would be possible if consumers followed gas saving tips and bought more fuel efficient cars.

"Personal fuel efficiency increases of 5 to 10 miles per gallon are possible with off-the-shelf technology and without changing classes of cars," said CFA Research Director Mark Cooper.

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### Rising Gas Prices Should Lower Auto Insurance Rates

Consumers who are driving less as a result of higher gasoline prices could save an average of five to ten percent on their automobile insurance rates, according to an analysis released by CFA in January.

"When gas prices jump, consumers take action to reduce their consumption by carpooling, using mass transportation, or simply driving less," said CFA Director of Insurance J. Robert Hunter.

"Most insurers include miles driven and how the car is used as major factors in determining rates," he added, "so if consumers have altered their driving habits, they may qualify for immediate rate relief."

Savings could average between about \$47 and \$94 per policy, according to the analysis. However, savings vary significantly by insurer, the study found.

The report outlines steps both consumers and regulators can take to reduce rates in response to rising gas prices.

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### Administration's Mad Cow Response Faulted

Special interest lobbying at federal agencies and the Office of Management and Budget (OMB) has helped keep needed food safety measures from being adopted, despite the discovery of a third cow infected with bovine spongiform encephalopathy, according to a report released in April by Center for Science in the Public Interest, OMB Watch, and CFA.

"Cow Sense: The Bush Administration's Broken Record on Mad Cow Disease," doc-

uments promises made by the administration related to such issues as adoption of a nationwide animal identification system and cattle feed standards.

It ties the administration's failure to follow through on these promises to industry influence. For example, the report identifies 10 closed-door meetings that OMB staff have held with representatives of the meat and feed industry and notes the presence of industry insiders in numerous top positions within the U.S. Department of Agriculture.

The report also outlines reforms the administration should take to ensure the safety of the food supply and improve foreign markets' acceptance of U.S. beef.

"The refusal to act is shortsighted," said Carol Tucker Foreman, Director of CFA's Food Policy Institute. "Neither domestic consumers nor foreign markets are likely to be reassured that U.S. beef is safe until the government takes action designed to meet animal and public health goals instead of continuing to be driven by the whims of some cattlemen."

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### African-Americans Pay Higher Auto Loan Rates

African-Americans on average pay a significantly higher annual percentage rate on auto loans than do other Americans — 7.5 percent compared to 6.0 percent, according to a CFA survey released in February.

On a six-year, \$20,000 car loan, this 1.5 percentage point difference would add up to about \$900 in additional interest payments.

The report outlines steps African-Americans can take to reduce their auto loan rates and expenses, including calling their bank or credit union for an auto loan rate quote before talking to a dealer about financing.

"A simple call to your bank or credit union for a rate quote may well save your more than \$1,000 in interest costs on your auto loan," said CFA Executive Director Stephen Brobeck.

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### Americans Over-spend on Quick Tax Refund Loans

Approximately 12.38 million American taxpayers spent an unnecessary \$1.6 billion in 2004 to obtain their tax refund money two weeks or less sooner than they would have if they used electronic filing and direct deposit, according to a report on refund anticipation loans (RALs) released in February by CFA and National Consumer Law Center (NCLC).

RALs are extremely high-cost bank loans secured by the taxpayer's expected tax refund. These loans typically last about one to two weeks until the actual IRS refund repays the loan.

Annual Percentage Rates (APR) for RALs range from about 40 percent (for a loan of \$9,999) to over 700 percent (for a loan of \$200). If administrative fees are charged and included in the calculation, RALs cost from about 70 percent to over 1,800 percent APR.

The report describes the targeting of low-income working families with RALs and the costs imposed on these families as a result, an estimated \$900 million on RAL fees and \$205 million in check cashing fees in 2004.

The report also includes results of a new survey that shows RAL users are more likely to be female, African American, employed in semi-skilled or unskilled jobs, and unbanked users of other high-cost fringe financial services, such as rent-to-own, payday loans, and pawnshop loans.

"Tax preparers are snaring cash-strapped families who can least afford to pay triple-digit interest rates for quick cash," said CFA Director of Consumer Protection Jean Ann Fox. "Instead of getting RALs, many of these recipients need every dollar of their refunds to escape debt and set aside emergency funds."

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### Financial Planners, Consumers View Wealth Differently

Consumers are much less confident about their ability to accumulate personal wealth than financial planners are, according to two recent surveys released in January by CFA and the Financial Planning Association (FPA).

According to the surveys, financial planners believe it is very important for Americans to understand the meaning of personal wealth, but only about half (49 percent) of

Americans know that personal wealth consists of financial assets, plus home equity and other tangible assets, minus consumer debts.

Less than half (48 percent) say they know exactly or approximately how much wealth they have.

"Knowing your net wealth will help ensure that spending and saving decisions are sensible and that adequate personal wealth will be accumulated," said CFA Executive Director Stephen Brobeck.

Planners typically think that over four-fifths of young American adults could accumulate \$250,000 in net wealth over a period of 30 years, and about half could accumulate \$1 million in this period.

In contrast, only about one-quarter (26 percent) of individuals think they could save even \$200,000 at any point in their life, and less than one-tenth (9 percent) believe they could accumulate \$1 million.

The report refers individuals to resources on the America Saves and FPA websites ([www.AmericaSaves.org](http://www.AmericaSaves.org) and [www.fpanet.org/public](http://www.fpanet.org/public)) for assistance in estimating their net worth and savings potential and getting answers to their finance questions.

#### On the Web

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