CFA CFAnews

April 1995
Volume 20, No. 2
ISSN #0732-8281

$100 Billion Annual Consumer Savings Sought

In April, the Consumer Literacy Consortium (CLC) launched a campaign to save consumers more than $100 billion a year, or more than $1,000 per household.

Planned over a two-year period, the campaign will publicize 66 money-saving tips about 28 essential consumer products and services. The tips are contained in a pamphlet — "66 Ways to Save Money" — that is available from the U.S. Consumer Information Center.

"The 66 tips represent the best money-saving advice from America's leading consumer experts," said CFA Executive Director Stephen Brobeck, chair of the CLC. "By following the tips, the typical family can effectively give themselves a tax-free raise of more than $1,000."

The CLC is a unique working group of representatives from consumer groups, federal and state government agencies, business organizations, and educational institutions. It was convened in 1993 by CFA to develop and disseminate essential consumer messages to inform and educate consumers.

"Unfortunately, only a minority of Americans consult consumer publications or other information sources before purchasing products, and the consumer information available is not always in agreement," said Brobeck. "By developing and publicizing simple tips, the Consumer Literacy Consortium should make it easier for consumers to save money in product purchases."

Many Consumer Tips Not Widely Known

"The tips contain information that is not widely known or practiced by consumers," said Robert Krughoff, President of the Center for the Study of Services (*Checkbook Magazine*) and a CLC member.

The following are among them:

- **Car Repairs** — Find an honest, skilled mechanic. No consumer can adequately protect him- or herself against one who is not.
- **Auto Insurance** — Before comparison shopping, call your state insurance department for a publication showing typical prices charged by different auto insurers.
- **Life Insurance** — Do not purchase a whole life, universal life, or other cash value policy unless you plan to hold it for at least 15 years.
- **Mortgage Loans and Refinancing** — You can save tens of thousands of dollars in interest charges by taking out the shortest mortgage you can afford. But always have an accountant compute precisely how much each mortgage option will cost and its tax implications.
- **Renting a Place to Live** — Select buildings where you would like to live and contact their building manager or owner to see if anything affordable is available.
- **Home Improvement** — Insist that several well-established, licensed contractors submit written, fixed-price bids for the work.
- **Electricity** — Make certain that appliances you purchase, especially air conditioners and furnaces, are energy efficient.
- **Food Purchased at Markets** — Compare price-per-ounce or other unit prices on shelf labels, then stock up on those items with low per-unit costs.
- **Funerals** — For information about the least costly options, contact a memorial society. Before selecting a funeral home, obtain an itemized price list of its services.

Consortium To Publicize Tips Extensively

"In the coming year, we hope to distribute more than one million copies," said CLC member Mary Levy, Director of the Publications and Media Division of the U.S. Consumer Information Center.

The CLC has developed a three-pronged distribution strategy:

- reaching consumers through TV, radio, newspapers, and magazines, including media tours by CLC members;
- placing the consumer tips in various computer databases, including the Internet; and
- promoting the pamphlet to consumer educators, including high school teachers, community college instructors, cooperative extension service agents, consumer protection officials, consumer credit counsellors, financial planners, librarians, and consumer and community leaders.

To develop the money-saving messages, the CLC ranked all consumer products by the amount of consumer spending involved, surveyed consumers to determine those products for which they most desired pre-purchase information, and examined the potential consumer savings for all of these products. It used these three criteria to select a final list of 28 products.

The consortium then researched current information sources and drew on the expertise of CLC members to develop tips for these 28 products. After more than a year of research and discussion, they agreed on a final set of tips for each of the products that included potential dollar savings. Experts, including Consumers Union, then reviewed the content of the messages and their form.

Origin of Campaign Dates to 1988

The launching of the consumer literacy campaign represents the culmination of efforts that began in 1988, when CFA analyzed consumer education in the nation's secondary schools.

The resulting report found that this education was weak and growing weaker. "At root, this weakness reflects society's failure to recognize its importance," the report concluded. As part of the solution, the study recommended an evaluation of the nation's consumer knowledge, believing that such an assessment would demonstrate a pressing need for improved consumer education.

With TRW funding, CFA initiated a test of the nation's consumer knowledge. This examination was conducted by the Educational Testing Service, with the assistance of CFA and experts from other private, non-profit, and government groups. ETS asked a representative sample of the nation's population 200 questions on 13 product areas.

Not surprisingly, the survey found significant gaps in consumer knowledge. The average score was only 54 percent, and the scores of many demographic groups were considerably lower. The survey results were extensively reported on by the press.

To capitalize on this interest, CFA, TRW, and the U.S. Office of Consumer Affairs organized a White House roundtable. At this session, Griff Garwood, Director of Consumer and Community Affairs at the Federal Reserve Board, suggested that there was a great need to develop and widely publicize simple messages about how to purchase products. That suggestion served as the basis for the convening of an ad hoc group, which by 1993 had evolved into the Consumer Literacy Consortium.

Consortium Members Are Diverse

The members of the consortium include representatives from government, non-profit, and business groups. The government groups are: Cooperative Extension System, Federal Trade Commission, Federal Reserve Board, Minnesota Attorney General's Office, National Association of Consumer Agency Administrators, U.S. Consumer Information Center, U.S. Food and Drug Administration, and U.S. Office of Consumer Affairs.

The non-profits are: American Council on Consumer Interests, American Association of Retired Persons, Center for the Study of Consumer Services – *Checkbook Magazine*, Consumer Action, Consumer Federation of America (convener), National Coalition for Consumer Education, National Institute for Consumer Education, and TARP, Inc.

The business groups are: Alamo Rent A Car, Inc., American Insurance Association, AT&T, Direct Selling Education Foundation, MCI Consumer Markets, Nynex Corporation, and Sprint.

Single copies of the brochure are available for $.50 each from Save Money, Pueblo, CO 81009.

The brochure offers tips about the following 28 products or services in these six purchase areas:

Transportation
- Airline Fares
- Car Rental
- New Cars
- Used Cars
- Auto Leasing
- Gasoline
- Car Repairs

Insurance
- Auto Insurance
- Homeowner Insurance
- Life Insurance

Banking/Credit
- Checking
- Savings and Investment Products
- Credit Cards
- Auto Loans
- First Mortgage Loans
- Mortgage Refinancing
- Home Equity Loans

Housing
- Home Purchase
- Renting a Place to Live
- Home Improvement
- Major Appliances

Utilities
- Electricity
- Home Heating
- Local Telephone Service
- Long Distance Telephone Service

Other
- Food Purchased at Markets
- Prescription Drugs
- Funeral Arrangements

Number of Consumer Heroes Drops in 1994

Just 53 members of Congress, less than half the number recognized last year, were named "Consumer Heroes" for the 1994 legislative session by CFA in its 1994 Voting Record released in March.

"This recognition is based on their excellent pro-consumer voting records during the second session of the 103rd Congress," said CFA Director of Telecommunications Policy Bradley Stillman, who oversaw publication of the voting analysis.

In addition to the praise for the 45 representatives and eight senators named as "Consumer Heroes," the CFA report also cites 48 representatives and nine senators as "Consumer Zeroes" for their consistent opposition to consumers' interest during the last legislative session.

The ratings are based on ten key votes in the House and 12 in the Senate during the second session of the 103rd Congress.

"After a strong start in the first session, the second half of the 103rd Congress was a disappointment, failing to yield victories on a number of important consumer issues," Stillman said.

Consumers suffered defeats, for example, on a number of bills designed to increase consumers' access to information in such disparate areas as insurance redlining, radon, lobbying reform, credit records, lead exposure, and product liability.

"Even those measures which had widespread public support, such as the assault weapons ban, barely made it through," Stillman noted.

However, consumer interests also prevailed in the defeat of several anti-consumer bills, including product liability "reform," the balanced budget amendment, an attempted roll back of the "Motor Voter" law, and an assault on the rights of the poor to challenge the legality of welfare reforms.

After a big drop in 1993, the overall voting average edged up one point in the Senate to 55 percent, but dropped by nine points in the House to 51 percent.

"In a somewhat unusual twist, Senate Republicans drove the one-point increase in the Senate, while the decrease in the House was led by the Democrats," Stillman said. "In fact, the 14-point drop to 72 percent for House Democrats was the largest swing for this group in 16 years."

In addition to the 1994 Heroes and Zeroes listed in the accompanying chart, CFA also recognized those members who have compiled the highest lifetime pro-consumer voting records.

The 13 Lifetime Heroes in the Senate are led by Sen. Paul Wellstone (D-MN) with a lifetime record of 92 percent and CFA's new Chairman, retired Sen. Howard Metzenbaum (D-OH), with a lifetime record of 91 percent.

The 60 House Lifetime Heroes are led by the following representatives with 100 percent ratings: Eva Clayton (D-NC), Anna Eshoo (D-CA), Elizabeth Furse (D-OR), Eddie Johnson (D-TX), Cynthia McKinney (D-GA), Patsy Mink (D-HI), Lucille Roybal-Allard (D-CA), Bobby Rush (D-IL), Nydia Velazquez (D-NY), Melvin Watt (D-NC), and Albert Wynn (D-MD).

Copies of the report are available from CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036. The price, to be paid in advance, is $10, $5 for non-profit organizations, and free to the press.

1994 CONGRESSIONAL HEROES & ZEROES

Two Senate Heroes voted with consumers 100 percent of the time and six more voted with consumers 92 percent of the time:

Bill Bradley (D-NJ)
Paul Wellstone (D-MN)
Joseph Biden (D-DE)
Tom Harkin (D-IA)
Frank Lautenberg (D-NJ)
Patrick Leahy (D-VT)
Howard Metzenbaum (D-OH)
Paul Simon (D-IL)

Forty-five House Heroes voted with consumers 100 percent of the time:

Neil Abercrombie (D-HI)
Anthony Beilenson (D-CA)
David Bonior (D-MI)
Corrine Brown (D-FL)
Eva Clayton (D-NC)
Barbara-Rose Collins (D-MI)
William Coyne (D-PA)
Ronald Dellums (D-CA)
Julian Dixon (D-CA)
Don Edwards (D-CA)
Eliot Engel (D-NY)
Anna Eshoo (D-CA)
Lane Evans (D-IL)
Bob Filner (D-CA)
Thomas Foglietta (D-PA)
Elizabeth Furse (D-OR)
Henry Gonzalez (D-TX)
Eddie Johnson (D-TX)
Dale Kildee (D-MI)
Gerald Kleczka (D-WI)
Nita Lowey (D-NY)
Jim McDermott (D-WA)
Cynthia McKinney (D-GA)
Robert Menendez (D-NJ)
Norman Mineta (D-CA)
Patsy Mink (D-HI)
Jerrold Nadler (D-NY)
John Olver (D-MA)
Ed Pastor (D-AZ)
Nancy Pelosi (D-CA)
Lucille Roybal-Allard (D-CA)
Bobby Rush (D-IL)
Martin Sabo (D-MN)
Bernard Sanders (I-VT)
Charles Schumer (D-NY)
Pete Stark (D-CA)
Mike Synar (D-OK)
Esteban Torres (D-CA)
James Traficant (D-OH)
Nydia Velazquez (D-NY)
Bruce Vento (D-MN)
Melvin Watt (D-NC)
Henry Waxman (D-CA)
Albert Wynn (D-MD)
Sidney Yates (D-IL)

Nine Senate Zeroes voted with consumers 17 percent of the time or less:

Jesse Helms (R-NC)
Robert Bennett (R-UT)
Paul Coverdell (R-GA)
Lauch Faircloth (R-NC)
Phil Gramm (R-TX)
Orrin Hatch (R-UT)
Kay Bailey Hutchison (R-TX)
Connie Mack (R-FL)
John McCain (R-AZ)

Forty-eight House Zeroes voted with consumers 14 percent of the time or less, including 18 with no pro-consumer votes:

Wayne Allard (R-CO)
Bill Archer (R-TX)
Richard Armey (R-TX)
Dan Burton (R-IN)
Sonny Callahan (R-AL)
Howard Coble (R-NC)
Mac Collins (R-GA)
Philip Crane (R-IL)
Tom DeLay (R-TX)
John Doolittle (R-CA)
Melton Hancock (R-MO)
Duncan Hunter (R-CA)
Sam Johnson (R-TX)
Dana Rohrabacher (R-CA)
Edward Royce (R-CA)
James Sensenbrenner (R-WI)
Bob Stump (R-AZ)
Robert Walker (R-PA)
Spencer Bachus (R-AL)
Cass Ballenger (R-NC)
Roscoe Bartlett (R-MD)
Joe Barton (R-TX)
Larry Combest (R-TX)
Christopher Cox (R-CA)
Michael Crapo (R-ID)
Robert Dornan (R-CA)
John Duncan (R-TN)
Newt Gingrich (R-GA)
Porter Goss (R-FL)
Fred Grandy (R-IA)
Joel Hefley (R-CO)
Bob Inglis (R-SC)
James Inhofe (R-OK)
Ernest Istook (R-OK)
Bob Livingston (R-LA)
Donald Manzullo (R-IL)
Dan Miller (R-FL)
Bill Paxon (R-NY)
Rick Santorum (R-PA)
Dan Schaefer (R-CO)
Nick Smith (R-MI)
Robert Smith (R-OR)
Cliff Stearns (R-FL)
Charles Taylor (R-NC)
William Thomas (R-CA)
Barbara Vucanovich (R-NV)
Ron Lewis (R-KY)
Frank Lucas (R-OK)

Nation's Health and Safety Improving

The past two decades have seen striking improvements in the nation's health and safety, but each year nearly one million Americans still die preventable deaths, and millions more suffer preventable injuries and illnesses, according to a biennial report released in March by the Coalition for Consumer Health and Safety.

During the past 20 years, deaths from motor vehicle crashes, drunk driving, and household accidents have declined significantly, as has the consumption of alcohol and cigarettes.

Speaking at a Washington, D.C. press conference to release the report, leaders of the coalition of 41 consumer, health, and insurer groups cited federal health and safety agencies and protections as playing an important role in these improvements.

"Agencies such as Centers for Disease Control and Prevention, National Highway Traffic Safety Administration, and Consumer Product Safety Commission have made significant contributions to improvements in health and safety," said CFA Executive Director Stephen Brobeck, who chairs the coalition.

"The CPSC helps protect people from unreasonable risk of death and injury from consumer products, and does so without placing overly burdensome regulations and restrictions on these products," said Horace Deets, Executive Director of the American Association of Retired Persons.

Especially striking progress has been made in motor vehicle safety, noted Ron Compton, President and CEO of Aetna Life and Casualty. "Safety belts, child restraints, motorcycle helmet laws, and 21-year-old minimum drinking age laws have prevented 73,000 deaths and 1.4 million injuries over the past ten years, with a total savings to society of an estimated $136 billion," he said.

"The coalition's report demonstrates how cooperation between the insurance community and safety, health, and consumer advocacy organizations has benefited society," said Robert Vagley, President of the American Insurance Association. "Through continued teamwork, we will make more progress."

The coalition leaders called on the nation to renew its commitment to improved health and safety in order to reduce the huge human and economic costs imposed on society by preventable deaths, illnesses, and injuries.

That commitment must begin with every individual and every family to use products more safely, but it must also extend to society as a whole, to pursue cost-effective health and safety policies and programs, the groups noted.

"The direct impact on society of alcohol-related collisions alone is $46 billion annually," said Robert W. Gary, President of Allstate Insurance Company. "We all need to work together to combat drunk driving."

Andrew McGuire, Executive Director of The Trauma Foundation and Co-Chair of Advocates for Highway and Auto Safety, stressed the important role of the federal government in conducting scientific research and data gathering on product-related injuries and illness.

"We urge Congress and the administration to continue full funding for that work by such agencies as NHTSA, the CPSC, and the CDC's Center for Injury Control and Prevention. Their data is vital for all national efforts to prevent and control injuries," he said.

The coalition is distributing the report to all members of Congress, to key federal and state government officials, and throughout the consumer, health, and insurer communities.

Copies of "The Nation's Health and Safety: A Status Report 1995" are available for $15, paid in advance, from CFA, 1424 16th Street, N.W., Suite 604, Washington, D.C. 20036. Complimentary copies are available to members of the media.

House Passes Bills To Limit Litigation

In March, the House passed three anti-consumer litigation "reform" bills, including legislation that would drastically reduce the rights of consumers injured by dangerous products to be compensated for their losses.

Before leaving on spring recess, the Senate Commerce Committee approved a narrower product liability bill that, while somewhat less draconian than the House bill, "would nonetheless dramatically limit fair compensation to consumers injured by dangerous products," said CFA General Counsel Mary Ellen Fise.

The House bill, H.R. 956, would:

- cap punitive damages in all civil litigation, not just product liability cases, to $250,000 or three times economic losses;
- place a similar cap on pain and suffering awards in all cases involving doctors, hospitals, and health insurance companies;
- replace the system of joint and several liability with a system of proportionate liability for non-monetary damages in all civil litigation;
- shield products manufactured and sold more than 15 years prior to the injury from product liability suits;
- prevent injured persons from recovering damages if a court determines they are more than 50 percent responsible for the injury as a result of drug or alcohol use;
- substantially reduce the liability of product sellers; and
- bar punitive damages in cases involving a medical device or drug previously approved by the Food and Drug Administration.

As approved by the Senate Commerce Committee, S. 565 does not extend its punitive damages cap beyond product liability cases, nor does it include the exclusion for products approved by the FDA. In addition, it contains a 20-year, rather than 15-year, time limit on the age of products subject to liability suits.

"Despite these improvements, this is still an anti-consumer bill," Fise said. "Injured women, children, the poor, and the elderly — the most vulnerable members of our society — are less likely to have substantial economic losses, and thus will be particularly harmed by both the House and Senate versions of this legislation."

Product Liability Costs Exaggerated

The basis for the legislation — that product liability lawsuits are driving up the costs of products and stifling innovation — is greatly exaggerated, said CFA Insurance Director J. Robert Hunter, who released a report in March showing that product liability costs American consumers only 26 cents on a $100 purchase.

The study proves that the cost of lawsuits is reasonable, he said. "It is a remarkable thing that the cost of product liability insurance is so low, considering the potential for injury by the huge number of complex products sold in America."

"These exceptionally low costs are very important new evidence for Congress as it debates the bills to alter the product liability system," said CFA Chairman Howard Metzenbaum, who joined Hunter in releasing the report.

"The facts are that the product liability premiums paid by businesses have dropped by almost half since 1987, not skyrocketed as some would have us believe," he added.

Hunter noted that two of three injured consumers who file claims receive no recovery, and that the average payout by insurance companies over the decade for those who file claims is under $6,000.

"The bottom line is that the current product liability insurance programs are a good value for businesses and consumers, and a profit center for insurance companies," Hunter added. If there is a problem in the system it is one of inefficiency, with about $1 of insurance company overhead for each $1 of payout to victims of product injuries, he noted.

Hunter presented the findings of his report in April testimony before a Senate Commerce subcommittee.

House Passes Additional Litigation Limits

The product liability bill is just one of three bills to overhaul the civil litigation system pushed through the House in early March.

The first bill to pass, H.R. 988, applies new fee-shifting provisions to civil cases brought to federal court under diversity jurisdiction, which occurs when parties to the litigation are from different states. The bill would require any party to the litigation who refused a settlement and then won less in court to pay the other side's attorneys fees.

Also passed, on an overwhelming 325-99 vote, was H.R. 1058, which would limit the ability of defrauded investors to seek redress.

The bill, which contains a loser pays provision, would require plaintiffs to post a security to cover the defendant's legal costs in order to bring a case.

It also contains unreasonably high pleading requirements, an increased burden of proof on plaintiffs, a change from joint and several liability to proportionate liability, and a shield for all but the most egregious reckless behavior on the part of corporate wrong-doers.

Adopted on the floor was an amendment that would shield a company from being sued based on projections it made, as long as a disclaimer was included somewhere in the statement regarding the reliability of the projection.

"This legislation is not only bad for defrauded investors, it is harmful to the integrity of our financial markets," said CFA Director of Investor Protection Barbara Roper.

Many of these provisions are also contained in S. 240, sponsored by Sens. Pete Domenici (R-NM) and Christopher Dodd (D-CT).

Consumer advocates, including CFA, support an alternative bill, S. 667, introduced by Sens. Richard Bryan (D-NV) and Richard Shelby (R-AL), which, among other reforms, would create an early evaluation procedure to eliminate clearly frivolous lawsuits and to encourage early settlement of clearly meritorious cases.

"The Bryan-Shelby bill proves that it is possible to attack frivolous lawsuits without eliminating meritorious cases," Roper said. "Unfortunately, some members of Congress are using the problem with frivolous lawsuits as rhetorical cover for their real agenda of providing deep-pockets special interest groups with a shield from liability."

CFAnews

CONSUMER FEDERATION OF AMERICA
1424 16th Street, N.W., Washington, D.C. 20036
(202) 387-6121

CFAnews is published eight times a year. Annual subscription rate is $25 per year.

Design & Typeset by: Dahlman/Middour Design

Anti-Consumer Telecom Bill Stalls In Senate

A floor vote on anti-consumer, anti-competitive telecommunications legislation has been delayed at least until after the Senate reconvenes from its spring recess.

Although S. 652 sailed through the Commerce Committee on a 17-2 vote in March, opposition from the administration and consumer groups on the one hand and from conservative Republicans on the other prevented sponsors from bringing the bill to the floor for a vote as planned in early April.

"Consumers support telecommunications legislation that protects them from monopolistic practices and promotes maximum competition. Unfortunately, the telecommunications bill reported by the Senate Commerce Committee meets neither of these goals," said CFA Director of Telecommunications Policy Bradley Stillman.

"If S. 652 were to pass in its current form, it would cause cable rates to skyrocket, keep telephone rates artificially inflated, and lead to greater concentration, and thus less real competition, throughout the telecommunications and media industries," he said. "We are hopeful that this delay will allow supporters of responsible deregulation to correct the serious defects in this bill."

Bill Would Raise Rates, Stifle Competition

In early April, when it was still expected that the bill would soon be brought to a floor vote, CFA and Consumers Union wrote to all members of the Senate urging them to oppose the legislation. Of particular concern, they argued, are bill provisions that would:

- effectively deregulate cable television before there is genuine competition to the current cable monopoly, and
- undermine the potential for competition in the local telephone market.

These points were echoed by Vice President Al Gore, who, in the wake of the Commerce Committee vote, urged Democrats to slow consideration of the bill until these and other concerns could be addressed.

Stillman argued against the bill's cable provisions in a March Commerce Committee hearing, noting that, since Congress re-regulated the cable industry, consumers have seen their rates decline, and the cable industry has continued to prosper.

He cited an industry analysis which found that, under regulation, the cable industry had: increased the number of homes passed; increased the number of subscribers; and increased revenue from the expanded basic tier of service, premium channels, mini-pay services, pay-per-view, digital audio services, and other sources. The cable industry did not dispute these findings.

"The plain facts indicate that, since re-regulation, consumers are doing better, and the industry is doing just fine," Stillman said. Furthermore, he noted, the act automatically removes regulation as soon as effective competition exists, making any repeal of the law unnecessary.

Consumers Oppose Cable Deregulation

"As members of Congress consider bowing to cable industry requests for deregulation, they should keep in mind that American cable consumers clearly oppose such action," Stillman noted.

A nationwide survey of cable consumers, released by CFA in April, found that most believe both that their cable rates are too high and that cable rate regulation should continue.

The telephone survey conducted in March by Opinion Research Corporation found that, while 65 percent of cable consumers believe rates are too high, none believe they are too low. Similarly, 67 percent of respondents said cable rate regulation should continue, while only 22 percent said it should not.

Bill Promotes Concentration, Not Competition

Consumer advocates and the administration have also faulted S. 652 for its failure to limit in-region buy-outs of monopoly cable companies by monopoly telephone companies, and vice versa.

"Quite simply, this bill would allow the most likely competitors to buy each other out, merge, or engage in joint ventures," Stillman said. "This means that the promised benefits of competition — including lower prices, greater innovation, and better service — may never be realized by most consumers."

This is particularly troublesome for consumers, he noted, since the bill prohibits states from imposing rate of return protections against inflated telephone rates and allows cable rates to skyrocket, even if no competition develops.

In general, the bill contains handouts, in the form of cost savings or new revenue streams, for just about every sector of the telecommunications and multi-media industry, Stillman noted. "The consumers who pay the bills are the ones who face rates far higher than they should be."

Investment Practices Harm Older Americans

The three out of four Americans over age 65 who rely on investment income to make ends meet are at unnecessary risk today as the result of a number of practices engaged in by the "legitimate" investment industry, according to a report released in March by CFA, the American Association of Retired Persons, and North American Securities Administrators Association.

"When a retiree receives a lump sum pension payment or a widow receives a life insurance payout, they have a bewildering array of investments to choose among, and the decisions they make will likely affect the quality of their life for years to come," said CFA Chairman Howard Metzenbaum.

"Many older Americans have learned to steer clear of con artists promoting fraudulent investment scams, but they are less likely to recognize the abusive practices engaged in by the legitimate investment industry," he added. "Unfortunately, these can be just as financially devastating for the victims."

Five Worst Problem Areas Identified

In the report, CFA, AARP, and state securities regulators identified the following five problem areas of the legitimate industry as being of greatest concern to older investors:

• **Use of misleading titles that portray commissioned salespeople as impartial advisers.**

Increasingly, brokers call their sales people "financial consultants" or "investment analysts," for example, and they market them aggressively as objective advisers. In fact, these individuals are trained and paid to sell products, not advice. Furthermore, the practice of paying higher commissions for proprietary products and for riskier products encourages these sales representatives to push clients into inappropriate or more costly investments.

• **Sale of uninsured products on the premises of banks.**

Older Americans are most likely to believe that all products sold on the premises of a bank are federally insured. The poor quality of bank advertising and written disclosure about uninsured investment products has contributed significantly to this confusion. It is compounded by the generally poor sales practices engaged in at banks, including failure to determine the investment's suitability for the investor, failure to mention the lack of insurance, and failure to discuss relevant fees and commissions.

• **Poor quality oral and written disclosure about investment products.**

When purchasing investments through brokers, investors often do not receive key disclosure documents until after the sale, too late to be useful in making the investment decision. To make matters worse, most written disclosures are too long and too complicated to be of any practical use to someone other than a securities lawyer or an expert investor. This poor quality of written disclosure makes investors even more dependent on the pre-sale oral representations made by brokers. These, in turn, are often incomplete and confusing and are sometimes actually misleading.

• **Hidden derivatives in investment products portrayed as "safe."**

The uninsured investment products most likely to be sold to older investors — such as money market, government bond, and other mutual funds traditionally portrayed as relatively low risk — have also become among those most likely to feature risky and volatile investments in derivatives. The use of these volatile instruments for speculative purposes is extremely difficult to detect and is rarely clearly and fully disclosed.

• **Unclear and incomplete account statements.**

Most brokerage and mutual fund account statements reveal very little in the way of information about broker compensation, investment performance, and the effect of fees and other charges. This makes it all but impossible for even the most conscientious investors to adequately monitor their accounts.

Fundamental Reform Needed

The groups called for fundamental changes in the way the investment industry does business with clients, particularly older investors.

"It should be noted that progress is being made on several of these fronts today," said NASAA President and Colorado Securities Commissioner Philip A. Feigin. "But we are still a long, long way from making certain that older investors get useful information about the risks involved in uninsured products."

CFA Chairman Metzenbaum called for passage of a "Truth-in-Investing law that clearly and fairly defines the information that investors are entitled to and the form and timing of its disclosure."

"The time has come to give investors the information they need, when they need it, and in a form that is readily useable," he said.

"Older Americans can't leave the fate of their retirement nest eggs to chance," warned Joan King, a member of AARP's National Legislative Council. "Even if substantial reforms are adopted by the industry and regulators to reduce the threat posed by abusive and borderline tactics in the legitimate investment world, older Americans must still get more actively involved in overseeing their investments."

To assist investors to protect themselves, the groups also released a "Bulletin for Older Investors" that provides advice on how to avoid common investment pitfalls.

The bulletin and background report are available free by writing to: "Older Investors," North American Securities Administrators Association, One Massachusetts Avenue, N.W., Suite 310, Washington, D.C. 20001. The bulletin is also available by sending a blank e-mail message to: oldinvest@nasaa.mailer.net.

FCC Makes Modest Cuts In Long Distance Access Fees

The Federal Communications Commission announced its decision in March to cut by approximately $1 billion a year the fees that local phone companies operating under price cap rate regulation can charge long distance companies for access to the local network. This is well shy of the cuts sought by CFA, long distance providers, the National Association of State Utility Consumer Advocates, and major telecommunications user groups.

"The FCC gave consumers less than half of what they deserve in long distance reductions," said CFA Director of Telecommunications Policy Bradley Stillman. "Unfortunately, this means the local monopoly telephone companies will continue to earn excessive profits."

Currently, about 45 percent of the price of a long distance call is returned to the local phone company in the form of access fees to cover the costs of beginning and ending the call. Under price cap regulation, the price cap for access fees increases each year by the rate of inflation, but decreases by a "productivity factor" set by the FCC to reflect the declining costs of providing phone service. In addition, the phone companies' earnings from access fees cannot exceed a 16.25 percent return.

Under the agency's existing formula, the seven regional Bell companies have received excessive returns on the fees, leading long distance companies and consumer advocates to argue for further cuts and a change in the pricing formula. The changes announced by the FCC in March include a one-time cut of approximately $500 million in the price caps and an increase in the productivity factor from its current 3.3 percent to 4.7 percent. Phone companies would have the option of choosing a 4 percent productivity factor with a lower overall earnings cap or a 5.3 percent productivity factor with no earnings cap.

CFA and its allies had sought a one-time cut of $1.3 billion, an increase in the productivity factor to at least 5.7 percent, and a new rate of return of roughly 10 percent. This would have produced annual cuts more than twice those announced by the FCC. "As Congress debates permitting companies to enter each other's businesses, this decision gives the local monopoly telephone companies an unfair competitive advantage at the expense of consumers," Stillman said.

The FCC has announced its intention to adopt additional changes in the price cap formulas to promote competition in local phone service. "The best way to eliminate these unfair prices is to move toward local competition more swiftly," Stillman said. "We intend to fight for that goal at both the state and federal level."

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June 20, 1995
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