CFA
CFAnews
February 1987
Vol. 12, No. 1
ISSN #0732-8281

Insurance Study Faults Sales Practices

Consumers pay $5 to $10 billion a year in excess costs, because life insurance policies are overpriced and insurance agents are reluctant to provide consumers with the product and cost information necessary to make effective cost comparisons, according to a report released by the Consumer Federation of America.

The report, "Confusion and Excess Cost: Consumer Problems in Purchasing Life Insurance," is based on more than 200 interviews by researchers posing as young, first-time customers attempting to buy life insurance. The interviews were conducted in eight states—Illinois, Maryland, Massachusetts, Minnesota, New York, Ohio, Virginia, and Wisconsin.

"The industry is pushing very complex policies, called universal policies, that combine an insurance and an investment component," said Mark Cooper, CFA's Research Director. "But agents are very reluctant to give consumers the information they need to make informed choices. We found that consumers would be better off buying a good basic term insurance policy and putting what they save on premiums in the bank."

According to the study, a 25-year-old consumer would be about $200 per year better off over the first 20 years by buying the best term policy available instead of the average universal policy researchers received. Even when the comparison is made against the best universal policy received, the 25-year-old consumer would be about $100 per year better off with the best term policy.

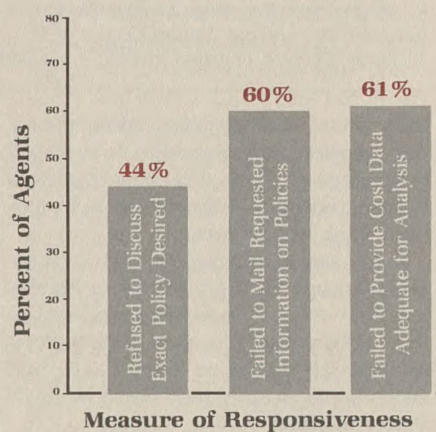
Based on these comparisons and a conservative estimate of the cost of current insurance, the report estimates that, over the long run, excess costs of $5 to $10 billion per year can be weeded out of the system through informed consumer choices. The report identifies three sources of excess cost to consumers:

- high agent commissions on non-term policies;
- high insurance costs embedded in existing policies; and
- potentially inferior returns on the investment component.

Agents Are Uncooperative

"Agents should have been very interested in a first-time buyer, because there is a great deal of repeat buying of insurance, but agents act as if they are afraid to give out information to consumers," Cooper said. Agents went so far as to ask the researcher-customers if they were planning to comparison shop, then refused to send the information when they said yes. In many cases, before they mailed out their policy illustrations, agents tore off the pages that provide the most useful cost information for consumers.

Life Insurance Agents Stonewall Consumers



In contrast to agent claims that costs vary only one or two percent, researchers found differences as large as 200 percent. And while agents disparage other companies' assumptions about interest rates for purposes of cost comparison, they try to sell their own company's assumptions.

The report also finds that only 56 percent of agents interviewed were willing to discuss exactly the policy about which the consumer inquired. Only a fifth of the agents were willing to provide the Interest Adjusted Net Cost Index, which is the standard cost measure for insurance policies, and a third of all agents simply refused to discuss cost in any form. More than 60 percent of the agents failed to send enough information for the consumer to actually be able to estimate the cost of the policy and compare it to other policies.

Federal, State Laws Need Review

"In the next few months, Congress and a number of state legislatures will be reviewing laws and regulations that enable and encourage the insurance industry to stonewall consumers. Our report shows that there is an urgent need to examine policies that critically affect the competitive nature and information practices of the industry," Cooper said. Among the policies Cooper cited as needing review are:

- the federal exemption for insurance companies from the antitrust laws, embodied in the McCarran-Ferguson Act, that prevents federal authorities from acting against anti-competitive practices;
- prohibitions on Federal Trade Commission investigation of sales and price in the insurance industry; and
- state laws that allow price fixing for agent services (anti-rebate laws) and that provide lax standards of disclosure.

Advice to Consumers

The report also offers practical advice to consumers. Noting that many agents insist on a meeting in order to establish a relationship of trust before they give out cost information, the report suggests that consumers turn the trust argument around and only place their trust in agents who will provide clear cost information for the consumer's consideration before a meeting. "Consumers shouldn't deal with agents who won't give them straightforward answers about policy costs over the phone or through the mail," Cooper said. "And they should also regularly reexamine the cost and amount of their life insurance coverage," he concluded.

Consumer Groups Launch Credit Card Campaign

Six national consumer organizations launched a nationwide "Fight and Switch" campaign in early January calling on the 75 million consumers who hold credit cards to fight excessive credit card interest rates.

The campaign was announced at a Washington, D.C. news conference by the organizations—Consumer Federation of America, Bankcard Holders of America, Consumers Union, National Consumers League, Public Citizen, and the U.S. Public Interest Research Group—which have members and affiliates throughout the country.

State and local consumer groups that have already joined the campaign are holding kick-off press conferences in five other cities—New York, Austin, Los Angeles, Lansing, and San Francisco. At these press conferences, state and local organizations are jointly releasing lists of the best cards available to consumers who live in the region.

The goal of the campaign is to lower rates across the board by getting consumers to act together to fight back.

Despite a dramatic drop during the past five years in market interest rates, credit card interest rates have slightly increased. In May of 1980, the prime rate was 18.39 percent, 24-month personal loans were at 16.31 percent, and credit card rates were at 17.31 percent. Today, the prime rate has dropped over 10 points to 7.5 percent, and 24-month personal loans are down to 14.7 percent, yet credit card interest rates have actually increased to an average of 18 percent.

"We've waited too long for banks to start lowering their rates," said CFA Legislative Representative Alan Fox. "It's time for the 75 million cardholders in this country to stand up against high rate cards."

The "Fight and Switch" campaign asks consumers to:

(Continued on Page 2)

Ten of the Best Bankcard Deals for American Consumers*

	Rate	Fee	Total Cost**
Union National Bank (AR)	10.50	$20.00	$ 83.00
Simmons First Nat. Bank (AR)	10.50	$22.50	$ 85.50
Peoples Bank (CT)	11.50	$20.00	$ 89.00
Highland Federal Savings (CA)	15.30	$ 0.00	$ 91.80
BONE Old Colony (RI)	12.00	$20.00	$ 92.00
Security Savings Bank (MI)	14.90	$12.00	$101.40
Chevy Chase S&L (MD)	14.00	$18.00	$102.00
Republic National Bank (FL)	14.00	$22.00	$106.00
Dime Savings Bank (NY)	14.90	$18.00	$107.40
First Jersey National Bank (NJ)	15.80	$15.00	$109.80

*Applications for all cards are accepted nationally. Because some cards do not have interest-free grace periods, consumers who pay balances in full each month should not rely on this information.

**Total cost based on monthly balance of $600.00.

Congress Sets Consumer Banking Agenda

The House and Senate Banking Committees are off to fast starts in the opening days of the 100th Congress, and both panels have placed consumer issues, particularly funds availability legislation, at the top of their agendas.

New Senate Banking Committee Chairman William Proxmire (D–WI) kicked off the action with three days of hearings January 21-23. Among the five issues under early consideration was funds availability. A hearing focusing entirely on that issue was scheduled by the committee's Consumer Affairs Subcommittee for February 5.

Meanwhile, House Banking Committee Chairman Fernand J. St Germain (D–RI) held a hearing on his Expedited Funds Availability Act (HR 28) on January 27. Subcommittee and full committee action on the bill have been scheduled for early February. HR 28 is virtually identical to the bill sponsored by Rep. St Germain in the 99th Congress (HR 2443), which passed the House of Representatives 282-11 in January 1986.

Check Holds Top Priority

Both committee chairs have listed funds availability legislation as a top priority for immediate action this year. Among the large range of issues in their committees' jurisdictions, only an effort to recapitalize the Federal Savings and Loan Insurance Corporation (FSLIC) enjoys similar status. That bill is seen by many as a necessary first step toward solving the problems faced by savings institutions.

"Check hold legislation has not quite reached the point of being noncontroversial," explained CFA Legislative Representative Alan Fox. "But most members of Congress and even many bankers now recognize that efforts to bail out the industry or expand its powers don't stand a chance unless and until important consumer concerns are addressed.

"The fight for check hold legislation is far from over, but consumers are closer to victory than ever before," Fox said.

New Senate Banking Leaders Are Key

The improvement in the prospects for check hold legislation was foreshadowed in the last hours of the 99th Congress, when House Banking Committee members, led by Chairman St Germain, rejected Senate efforts to pass the FSLIC bill without also adopting a strong hold bill. The crucial difference this year is the change in the membership and leadership of the Senate Banking Committee.

When the Democrats regained control of the Senate this year, Sen. Proxmire, a long-time friend of consumer interests, regained the committee's top spot. One of his first actions was to establish a separate subcommittee on consumer affairs, a panel eliminated when the Republicans took over the Senate in 1981.

The chairman of the Consumer Affairs Subcommittee is Sen. Christopher Dodd (D–CT). The Senate's leading champion of funds availability legislation, Sen. Dodd was heavily involved in last-minute efforts to win Senate approval of limits on hold periods last year.

"On a wide range of financial services issues of interest to consumers and neighborhoods, Senators Proxmire and Dodd have long been key leaders," Fox observed. "Issues ranging from deposit account disclosure to fair credit practices and from community reinvestment to undue concentration of resources will receive the attention they deserve."

Other Banking Committee Plans

In addition to the funds availability and FSLIC proposals, St Germain has scheduled early action on emergency assistance for the homeless, and Proxmire is expected to schedule a bill giving banking regulators more authority to order emergency interstate bank acquisitions.

CFA Legislative Representative Alan Fox (far left) was among a large group of consumer representatives to testify before the House Banking Committee on check hold legislation in January. Also pictured (from left to right) are: Samuel Cooper of U.S. PIRG, Anne Reynolds of A.A.R.P., Franci Livingston of Public Citizen's Congress Watch, and Michelle Meier of Consumers Union.

The Senate hearings in January also considered proposals to grant banks authority to underwrite certain securities and to close the "nonbank bank" loophole, which allows commercial entities to open banks and allows banks to avoid restrictions on interstate expansion.

Observers say these proposals are less likely to move quickly. After four years in which every piece of significant banking legislation was stalemated by House-Senate differences, both banking committee chairmen will seek to establish early on that they can act quickly and effectively. At this point, only the FSLIC and check hold bills seem to offer the opportunity to do so.

Disclosure Bills to Move Soon, Also

Final action on the hold bill could occur as early as this spring, and two other pieces of business left over from last year are expected to follow closely behind.

Disclosure of deposit account terms, the "truth in savings" bill, sponsored by Rep. Richard Lehman (D–CA), and more complete disclosure of credit card costs, championed by Rep. Charles Schumer (D–NY), were combined into a single bill, HR 5613, in 1986. That bill passed the House unanimously but was never considered in the Senate.

Both proposals have again been introduced, as separate bills, in the House. No Senate bill has been introduced, but Sen. Dodd sponsored a credit card disclosure bill in 1986 and is expected to schedule both issues soon after the funds availability issue is disposed of. Although the truth in savings issue has never been discussed by the Senate, credit card disclosure bills were introduced by senators from both parties in 1986. Both proposals could become parts of a "second round" package of banking bills expected in a few months. The disclosure proposals could be considered sufficiently noncontroversial to pass on their own even sooner.

Down the Road

The consumer financial services agenda for the 100th Congress will not end when the unfinished business begun in the 99th Congress is taken care of. Among the key issues CFA and other consumer and community groups are urging the banking committees to address are:

- permanent extension of the Home Mortgage Disclosure Act, and inclusion of mortgage company subsidiaries and commercial loans in the act's reporting requirements;
- oversight hearings into the poor enforcement of consumer and community reinvestment laws by federal financial industry regulators;
- the explosion in home equity loans and other mortgage-related problems, such as disclosure requirements for mortgage brokers and failure to honor interest rate commitments;
- availability of basic deposit services to low- and moderate-income consumers;
- the effect of dealer financing of auto and other loans on Truth in Lending Act disclosures; and
- a variety of credit and debt collection problems, including the sale of credit card loss insurance and extension of the Debt Collection Practices Act to in-house collection operations.

from Page 1

Consumer Groups Credit Card Campaign

- switch to a lower rate card;
- refinance the debt on their high interest rate card with a cash advance on a lower rate card or with a low interest rate consumer loan; and
- write to state and federal representatives supporting legislation to cap credit card rates and to require improved disclosure of rates and other terms in all credit card advertising. Rep. Charles Schumer (D–NY) introduced both rate cap and disclosure legislation in the 99th Congress and, according to a staffperson, plans to introduce similar legislation this year.

The six organizations behind the campaign identified 10 of the best credit card deals available across the country. Top on the list was a card issued by Union National Bank in Arkansas. With a rate of 10.5 percent, an annual fee of $20, and assuming a monthly outstanding balance of $600, the total yearly cost of that card is $81.60.

The consumer groups also released a list of 25 of the worst bank credit cards in America. At the top of that list is a card issued by Bank One/Comp-u-card in Ohio. With a rate of 21.6 percent, an annual fee of $30, and assuming a monthly outstanding balance of $600, that card costs $159.60 yearly.

Some of the cards among the 25 worst are offered by the biggest card issuers in the country, including First Chicago and Citibank. The 25 worst cards account for 35 million of all credit cards outstanding, or 20 percent of the market. "The largest banks have to be forced either by real price competition or by Congress to lower their rates," Fox said. "With banks paying about six percent for the money they lend out to cardholders at over 18 percent, it is easy to see why credit cards have become the most profitable area of banking today—and the most expensive for consumers."

Consumers would save approximately $4 billion annually if their outstanding revolving credit debt accrued interest at 12 percent instead of today's average rate of 18 percent. If consumers switched from the worst card on the list to the best, for example, they would save $78 per year on each card in their pocket.

Ten of the Worst Bank Credit Cards in America

	Rate	Fee	Total Cost*
Bank One/Comp-u-card (OH)	21.60	$30.00	$159.60
Associates (CA)	21.90	$20.00	$151.40
Valley Bank (NV)	22.20	$15.00	$148.20
Bank of California (CA)	21.00	$20.00	$146.00
First Interstate of Denver (CO)	21.00	$20.00	$146.00
Imperial Bank (CA)	21.00	$20.00	$146.00
First Interstate (NV)	21.60	$15.00	$144.60
Beneficial National (DE)	21.00	$18.00	$144.00
First Interstate (CA)	21.00	$15.00	$141.00

*Total cost based on monthly balance of $600.00.
Information from a variety of recent published sources.
Rates and fees change frequently and may no longer be accurate.

Budget Proposal Cuts CPSC, Poverty Programs

The Reagan administration has released its FY '88 budget proposal, and once again domestic programs are called on to foot the bill for military buildup and deficit reduction.

Particularly hard hit are the programs aimed at serving low income Americans. Of the $18.7 billion in spending reductions proposed in the administration's new budget, one third would come out of these programs, which constitute only a ninth of the federal budget.

Also targeted for cuts, as it has been every year since Ronald Reagan took office, is the Consumer Product Safety Commission (CPSC). Other major consumer protection agencies fared somewhat better, however, with the Food and Drug Administration, the National Highway Traffic Safety Administration, and the Federal Trade Commission being funded at levels comparable to 1987.

"Clearly President Reagan is more interested in funneling money into questionable and redundant military programs than he is in protecting Americans from the very real and present dangers of death and disfigurement from unsafe products and hunger and homelessness due to poverty," said CFA Legislative Director Gene Kimmelman.

Poverty Programs Face Deep Cuts

If the administration budget were passed as written, outlays for low income programs would be cut $6.7 billion below the level needed to maintain current services in these programs, according to an analysis of the budget proposal by the Center on Budget and Policy Priorities (CBPP). Appropriations, or budget authority, for these programs would drop $12.4 billion below current service levels, an 11 percent reduction.

The disparity between the two figures is accounted for by the fact that, in some programs, reductions in appropriations do not show up as spending cuts until subsequent years, and thus the effect of these cuts grows significantly each year. By 1992, the final year covered by the budget proposal, actual spending for low income programs would be reduced $22.7 billion below the level needed to maintain current services, a 16 percent reduction in the low income portion of the federal budget.

The proposed budget has slated for termination 14 programs serving low income families and individuals, among them:

- Legal Services, which provides legal assistance to low income persons;
- Work Incentive Program, which provides job training for welfare recipients, assisting them to gain employment and leave the welfare rolls;
- Farm Labor Housing, which provides loans and grants to build housing for migrant and seasonal farmworkers;
- Community Service Block Grants (which would be phased out over four years, beginning with a 20 percent cut in appropriations next year);
- Temporary Emergency Food Assistance funds, which are provided to states and to local public and non-profit agencies and charities to help defray costs of storing and distributing surplus government foods given to the needy through food banks and soup kitchens;
- Very Low Income Housing Repair Grants, which provides grants to the poorest rural homeowners to help pay for emergency repairs; and
- Rural Housing Loan programs, which provide more than $2 billion in low interest loans each year for rental housing for low and moderate income rural families. (Those programs would be replaced with a rural housing voucher program that would provide services to only a fraction of the rural families served under existing programs, according to the CBPP.)

Included among other low income programs that face deep cuts:

- Medicaid would undergo cuts of $1.25 billion in FY '88, and regulatory changes would result in another $150 million cut in benefits.
- Student financial assistance to the needy would suffer an appropriations cut of 39 percent, or $2.1 billion, in FY '88; $1.1 billion already appropriated for FY '87 would be canceled.
- Low income energy assistance would have its FY '88 appropriations cut 35 percent, or $665 million, below current service levels.
- Low income housing appropriations would be cut by more than half in FY '88 and set at $4.2 billion below current service levels.
- Indian health programs would be cut 20 percent in FY '88.

Benefit Cuts Increase Poverty

These cuts are proposed despite clear evidence that many Americans who could have escaped poverty with adequate government assistance will remain poor as a result. According to an analysis of Census Bureau information by the CBPP, 30 percent of the increase in poverty among families with children since 1979, and half of the increase since 1981, is a result of cutbacks in government programs.

"The failure of most states to keep benefits up with inflation and the budget reductions made during the Reagan administration have been a major factor in the large increase in poverty since 1979," said Robert Greenstein, CBPP Director. Had government programs continued to lift out of poverty the same proportion of families with children as in 1979, 458,000 fewer such families would have been poor in 1985, he said.

CPSC Budget Whittled Away

Among the major government consumer protection agencies, the CPSC has been singled out for budget cuts. Putting aside appropriations for the new federal retirement system, the CPSC budget would be reduced from $34.1 million in FY '87 to $33 million in FY '88. As a result, the agency would be forced to drop the equivalent of another eight full-time positions from its staff, which has already been cut more than 40 percent since 1981. Operating costs would have to be cut 5.8 percent and common costs 6.3 percent, according to Richard Kopanda, Budget and Planning Officer at CPSC.

Kopanda called the cuts "manageable," but CFA Product Safety Director Mary Ellen Fise disagreed. "They said the 25 percent cut last year was manageable," she said. "This cut may be small by comparison, but it represents a continued whittling away of the agency, which has already been crippled in its ability to protect consumers from unsafe products."

A year ago, then CPSC Commissioner Stuart Statler called a budget of $35.6 million and a staff of 568 "woefully inadequate to fulfill our vital mandate from Congress." Statler said the massive cuts to the agency had left it "unable to assess emerging risks from new products, or even to identify them in the first place."

"Nothing has changed since then, except that the budget has been cut even more drastically," Fise said. "Consumers are at risk as a result."

While the other consumer agencies do not face the kind of cuts proposed for the CPSC, their proposed funding levels would prevent them from initiating new programs to address emerging problems. The only major exception is slightly increased funding for AIDS research at the FDA.

"We hope that Congress will reject this budget proposal as unfair to low income Americans and unsafe for American consumers," Kimmelman said. "Even working within the constraints of Gramm-Rudman, a solution must be found that shares the burden fairly and responsibly among all Americans, rather than placing the heaviest load on our poorest citizens."

New Coalition Launches Effort to Reform ICC

The new Coalition for Rail Fairness and Competition has initiated efforts to secure reform of the Interstate Commerce Commission's regulation of captive shippers and oversight of competitive access under the Staggers Rail Act of 1980.

The coalition, which is chaired by the Consumer Federation of America, the Procompetitive Rail Steering Committee, and the National Rural Electric Cooperative Association, launched its campaign by outlining its concerns to Congress in a letter signed by a dozen member groups representing consumer advocates, farm organizations, state regulators, industrial shippers, coal producers, and utilities.

ICC Duplicity

"This broad-based coalition has come together as a result of the long history of regulatory abuses at the ICC, which were so clearly documented in hearings before the last session of Congress," said Mark Cooper, CFA Research Director.

"The ICC played a game of cat and mouse with the 99th Congress," Cooper said. "It promised to take action while Congress was in session but then did almost nothing once Congress adjourned. We're convinced that the 100th Congress will not tolerate this duplicity."

Problems to Be Resolved

The primary problems, which the coalition seeks to resolve through legislation, include revenue adequacy, rail cost inflation, competitive access, and market dominance. Among the abuses of the revenue adequacy proceeding the coalition seeks to address are the ICC's persistence in utilizing fictitious debt costs; continued allowance of a double write-up in converting to depreciation accounting; refusal to scrutinize the investment base of the railroads; and elimination of shippers, consumers, and other affected parties from the regulatory process.

The coalition hopes to force the ICC, in calculating the rate of inflation in rail costs (the Rail Cost Adjustment Factor), to adjust the index for increases in rail productivity and to lower rates when the index declines, instead of its current practice of placing excess charges in a hypothetical "bank account" to be withdrawn at a future time. The coalition also hopes to force the ICC to promote actively rail-to-rail competition, as the Staggers Act directs.

"The climate of public opinion in the nation has shifted," Cooper said. "Consumers have always known that competition is their best friend, but they have been reminded that, where competition is weak or non-existent, they need protection from the abuse of market power. The Staggers Act recognized this, but the ICC has ignored these provisions of the act. Because the people will no longer tolerate it, Congress will no longer tolerate do-nothing regulators who turn a blind eye to monopoly power."

"The climate of public opinion in the nation has shifted."

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

President: *Jean Ann Fox*
Executive Director: *Stephen Brobeck*
Legislative Director: *Gene Kimmelman*
Administrative Director: *Erika Landberg*
Legislative Representative: *Alan Fox*
Research Director: *Mark Cooper*
Public Affairs Director: *Jack Gillis*
Product Safety Director: *Mary Ellen Fise*
Product Safety Coordinator: *Edith Furst*
Conference Manager: *Barbara Tracey*
Legislative Aide: *Tom Ciaglo*
Secretary: *Beverley Southerland*
Receptionist: *Kathy Small*
Administrative Assistant: *Miguel Carpio*

CFAnews Editor: *Barbara Roper*

CFAnews is published 8 times a year. Annual subscription rate is $25 per year.

© Copyright 1987 by Consumer Federation of America. CFA should be credited for all material. All Rights Reserved.

Design & Typeset by: Design Consultants, Inc.

Phone Bills Up 20 Percent Since Divestiture

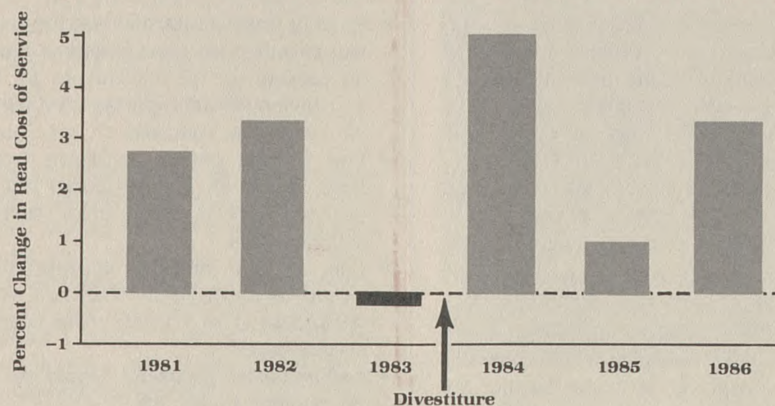
Despite significant long distance rate reductions, consumers remain net losers three years after the breakup of AT&T, according to a report released by the Consumer Federation of America. The report, "Divestiture Plus Three: Still Crazy After All These Years," compares the pre- and post-divestiture prices consumers pay for local and long distance telephone service to assess how consumers and the phone companies have fared since the breakup.

"The consumer price index tells the whole story: local phone charges have risen four times faster than inflation, and the average consumer's total phone bill has risen more than twice as fast as inflation," said Gene Kimmelman, CFA's Legislative Director. "Even after significant long distance rate reductions, the average consumer's overall phone bill is up 20 percent since the AT&T breakup," Kimmelman added. "Our government's addiction to deregulation is letting one of the nation's best consumer bargains—affordable phone service—go down the tubes."

"While consumers pay 40 percent more for local phone charges, the local phone companies enjoy extraordinary profits," said Mark Cooper, CFA's Research Director. "Regulators have condoned unprecedented Bell company earnings, resulting in over $3 billion of excessive charges to residential and business telephone customers per year."

The report is based on a survey of state regulatory commissions, the consumer price index compiled by the Bureau of Labor Statistics, Federal Communications Commission data, the *Business Week* Scoreboard, and data from *Standard and Poor*. It incorporates an analysis of telephone rates, profits, and usage since divestiture (January 1, 1984).

Telephone Rate Increases Before and After Divestiture



Phone Profits Up

State regulators have granted local phone companies about $5.5 billion in new revenue in the past three years. Although this sum represents only about half of what the companies requested, a review of their financial performance suggests it is excessive.

Over the past two years, the Bell companies had a rate of return on equity that was two to four percentage points higher than other utilities and non-utility companies. Along with faster depreciation of equipment, this high return required ratepayers to pay more than $3 billion too much in phone charges annually.

As a consequence, the stock prices of Bell companies increased by an average of nine percent between January 1984 and the end of October 1986. This was nearly twice as fast as the Dow Jones industrial, the New York Stock Exchange, and the Standard and Poor composite indexes rose.

Local Rates Also Rise

A large portion of the higher earnings represented increased rates. Between 1983 and 1986, local residential charges (including the federal access charge) rose from an average of $10.55 per month to $15.40 per month—a 46 percent increase. The consumer price index (CPI) for local phone service (including the access charge, installation fee, telephone cost, local usage charges, and taxes) reflects this increase. In the same period, it escalated by 39.8 percent.

At the same time, long distance rates were falling—the 17 percent CPI decline in interstate long distance service more than offset a four percent increase in in-state long distance service. Yet, this decrease was not enough to compensate for the rise of local rates. In the three-year period, the CPI for overall phone service rose 20 percent.

Impacts Vary

This 20 percent figure is an average one. Some households have seen their phone bills fall, while others have watched them escalate. The problem is that most households have been hurt. Data from recent surveys in Michigan and Pennsylvania show that between two-thirds and three-quarters of all residential customers make so few long distance calls that they end up with higher total phone bills as a result of the $2 monthly access charges.

"For most consumers, the promises of divestiture remain largely unfulfilled," Kimmelman said. "Local rate increases and federal access charges have resulted in the largest sustained real increases in telephone bills since the passage of the Communications Act over half a century ago."

In part, noted Cooper, these increases reflect excessive rates of return and in part cost-shifting from long distance to local service. "Federal and state regulators must revisit the pricing decisions made under the immense pressures and uncertainties of the AT&T breakup," he said.

FDA Proposes Rule on Cholesterol Labeling

The Food and Drug Administration (FDA) has proposed a regulation to define and provide for proper use of the terms "cholesterol free," "low cholesterol," and "cholesterol reduced" on food labels.

The proposed rule defines "cholesterol free" foods as those containing less than two milligrams of cholesterol per serving. "Low cholesterol" foods have been defined as containing less than 20 milligrams per serving. And "cholesterol reduced" could be used only on the labels of foods reformulated or processed to lower cholesterol by 75 percent or more. Products using these terms on their labels would also have to contain statements in the nutrition labeling of the per-serving cholesterol and fatty acid content (saturated fat vs. polyunsaturated fat).

Mitch Zeller, Assistant Director of Legal Affairs at the Center for Science in the Public Interest (CSPI), called the proposed regulation "long overdue." "We're very happy to see they've finally done this, but there are a couple of major shortcomings in the proposed rule that we hope the FDA will correct in the final bill," he said.

CSPI is concerned that the regulation, as currently written, would allow low cholesterol claims in bold print on the front label of foods that are low in cholesterol but high in saturated fat, as long as the saturated fat content of the product is disclosed in the small print on the back nutritional label, Zeller said. This is illogical, he said, since people choose low cholesterol and low saturated fat foods for the same reasons. Since the FDA has not defined the term "low in saturated fats," CSPI has proposed that the term be restricted to foods containing no more than one gram of saturated fat per serving or in which no more than 10 percent of calories come from saturated fats.

CSPI is also concerned that the proposed regulation sets no standard for the use of such comparative terms as "lowered cholesterol" or "less cholesterol." To make the regulation consistent with other FDA regulations, CSPI recommends that a minimum standard of 33 percent reduction be set before such comparative claims can be made on food product labels.

"Making food labels more cholesterol accountable is an issue of vital concern to consumers in light of recent studies on the health effects of cholesterol ingestion," said Mary Ellen Fise, CFA Product Safety Director. "One study found that four out of five middle-aged American men run the risk of dying prematurely from heart disease because of unhealthy levels of cholesterol in the blood. We believe this regulation, with the alterations suggested by CSPI, is a step in the right direction."

CFAnews
Consumer Federation of America
1424 16th Street, N.W. • Washington, D.C. 20036 • (202) 387-6121

BULK RATE
U.S. POSTAGE
PAID
WASHINGTON, D.C.
PERMIT NO. 8772