The original documents are located in Box 26, folder "No-Fault Automobile Insurance" of the John Marsh Files at the Gerald R. Ford Presidential Library.

attach to Paul O'Neill
matter - re ~~no-fault~~

THE WHITE HOUSE

WASHINGTON

Goe

[ca. 8/75 ?]

NO FAULT

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Baker *	Allen
Brock	Bentsen
Bartlett	Byrd (Va)
Buckley	Chiles
Curtis *	Church
Dole *	Eagleton
Domenici	Eastland *
Fannin *	Hartke *
Goldwater *	Hollings
Hansen *	Huddleston
Helms	Johnston
Hruska *	Long *
McClure	McClellan *
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Statement of Allstate Insurance Company
Before the Committee on Commerce,
United States Senate, New Senate Office
Building, Room 5110, April 30, 1975

Mr. Chairman and Members of the Committee:

I am Donald L. Schaffer, Vice President, Secretary & General Counsel of the Allstate Insurance Company with Home Offices in Northbrook, Illinois. With me is Mr. Rex Davis, Assistant Vice President and Actuary for Allstate.

Allstate is the second largest insurer of automobiles in the United States, insuring about 9 million private passenger vehicles. At the outset I would like to thank the Committee for offering me the opportunity to testify on S. 354, the National No-Fault Motor Vehicle Insurance Act. Allstate has historically engaged in serious and sincere efforts to reduce losses and thereby reduce the cost of automobile insurance to the public. This Committee and its staff have labored mightily in the areas of vehicle safety and damageability, and the fruits of these labors are now being felt and will, we sincerely believe, be felt to an even greater degree in the future.

Allstate supports the concept of meaningful reform of the automobile injury reparations system, and has worked hard in the various states to enact meaningful no-fault automobile insurance laws. At the same time we have opposed and still oppose a Federal mandate to the states.

Unfortunately, S. 354, the National No-Fault Automobile Insurance Act, and in fact most state no-fault automobile insurance proposals, have been described and sold to the public as cost saving devices. The public has

been led to believe no-fault insurance as such will save a lot of money for automobile insurance buyers. The fact is that a properly balanced automobile no-fault insurance bill with adequate benefit levels and an offsetting restriction on tort recovery may well do a much better job of distributing benefits, but will not necessarily reduce the overall cost of automobile insurance.

This Committee must now consider this most important legislative proposal in the light of our present American economic environment. If the public is to be promised cost savings, they had better be capable of realization. Furthermore, the automobile insurance business is today in one of its most difficult financial positions as losses continue to substantially exceed premium income, as insurance company surplus continues at undesirably low levels, and as companies are faced in many instances with assessments to fund insolvencies of failing companies and to pay the losses produced by residual market mechanisms designed to provide automobile insurance for those unable to procure it in the voluntary market.

This is not the first time the Committee has considered this proposal. In fact, this is the second time I have testified on S. 354. But it must be kept in mind that we are now considering this legislation in a changed economic environment where the costs of misjudgment could well be catastrophic, both with respect to the individual consumer and to the automobile insurance business. In previous statements and material submitted to this Committee and to members of the United States Senate, Allstate has argued

that S. 354 and its predecessor, S. 945, would increase costs to the consumer. We have argued that because costs are the lens through which the consumer views the merits of any no-fault proposal, it is incumbent upon Congress to assure that any such measure does not increase the price of automobile insurance. Indeed we have argued, and studies bear us out, that consumer support of no-fault, State or Federal, is premised almost totally on the promise of reduced premiums.

Initially during 1972 Allstate actuaries presented, along with other actuaries, evidence to this Committee in a special Executive session with respect to the cost increases anticipated from S. 945. Allstate's costing indeed predicted the highest price increases of any of the actuaries present. In fact, at least one actuary predicted substantial reductions as a result from the enactment of S. 945. We cautioned at that time that costing of a measure of this sort, which was based on the computer model constructed largely upon theory and informed judgment, was never vested with absolute certainty or mathematical precision and was always subject to performance results in the real world, which might disprove some assumptions upon which the model is based. However, we felt that the assumptions underlying our costing were the most reliable, and felt impelled to publish this information to the greatest extent possible in an attempt to see that Congress, the media, and the public understood that a substantial portion of the automobile insurance business sincerely believed S. 354 would raise and not lower automobile insurance costs.

As a result of the substantial controversy with respect to the question of cost, this Committee, with the cooperation of the Department of Transportation, retained the actuarial firm of Milliman & Robertson to perform costing on the revised version of S. 945, introduced in the last Congress as S. 354. The Milliman & Robertson report, based on an earlier version of S. 354 (not the one which ultimately passed the Senate), predicted that in most instances the average price of automobile insurance in most states would decrease as a result of the enactment of S. 354. We devoted a great deal of time and attention to a thorough review of the M & R costing. After completion of this review, we concluded that it was seriously deficient in numerous respects, and consequently assisted our trade association, the National Association of Independent Insurers, in testifying last summer before the Commerce and Finance subcommittee of the Interstate and Foreign Commerce Committee of the House of Representatives. In that testimony it was indicated that S. 354, as it had then been recently passed by the Senate, would indeed result in substantial cost increases to the American consumers. In material which we helped prepare and subsequently submitted to the Committee, the NAII provided detailed reasons why the costing provided by M & R did not in fact adequately reflect what would happen to the average private passenger car owner in the real world operation of S. 354. A few of the major differences include the fact that M & R averages in the huge savings which will inure to the benefit of the commercial vehicle operators. The commercial vehicle operator will "eat up" the savings predicted for the entire state population, and the private passenger car owner will have to pay more. The Allstate costing reflects what the private passenger car owner will have to pay.

Furthermore, M & R has priced the survivors benefits at what we believe to be an unreasonably low level of $5,000, while we believe most states would elect a $15,000 benefit; and, further, M & R has failed to include an "induced cost" factor reflecting the increased utilization of universally available first party benefits. (Actuaries costing National Health Insurance plans consistently include an induced cost factor.) Finally, M & R ignores data contained in the DOT study and assumes the ratio of special damages to general damages will remain the same in each state. Currently available data clearly reveals that the relationship of special damages to general damages changes significantly from state to state, and the Allstate costing reflects this fact. The material submitted to the House is attached for the Committee's information.

However, we now believe that the theoretical costing arguments which have gone before must be amended by the limited real world experience in those few states where we can now view data as being partially credible because it has had an opportunity to develop for a sufficient period of time to give some indication of future results. This data, in our opinion, clearly reveals that not only was the Allstate costing not high but indeed understated the probable cost of S. 354. On the basis of these results we now even more firmly conclude that S. 354 would, if passed, increase insurance costs to the vast majority of American automobile insurance buyers. To our knowledge this is the first time the Committee has had the clear opportunity to compare early actual results with some of the judgment assumptions utilized in earlier costing efforts. The cost increases predicted by the model, in some of the states alarmingly large, should cause the Committee to pause to reconsider whether the financial condition of consumers will permit enactment of S. 354.

In his prepared statement opening these hearings, Senator Moss challenged future witnesses arguing the cost question to provide proof why their cost projections are more accurate than those offered by Milliman & Robertson. The evidence we will present today, which supports the basic accuracy of the Allstate model and which reflects real world experience rather than theoretical precepts, responds to that challenge. Another issue which we have historically raised is that it would not appear wise to impose upon the American insurance buyer a rigid and monolithic Federal no-fault system without first awaiting and subsequently studying the results of the no-fault experiments currently in process in the laboratories of the several states. We have argued that to refuse to benefit from these experiments is to walk into a dark room and refuse to turn on the lights. Only now is limited experience providing any illumination, and this new information, which Mr. Davis will discuss, serves only to reinforce our belief in the absolute need for further observation in the real world laboratories of no-fault states. This need will continue to be until such time as the serious and dedicated students of no-fault can explain and correct some of the unusual phenomena we have observed to date. Finally, we have argued that no two states are the same and that, while the citizens of a few densely populated states might benefit from an S. 354 type plan, such would operate to the detriment of the citizens of most of the states. Again, the data we will present today, in our opinion, provides clear support for that position. I will now ask Mr. Davis to present to the Committee evidence of the accuracy of the Allstate costing model; the model projections of the cost of S. 354 to the citizens of each of the fifty states; and evidence demonstrating that no-fault produces results not yet fully explain-

able and which differ considerably, depending on the characteristics of the state in question.

Mr. Davis

Mr. Chairman and Members of the Committee:

I would like first to present evidence relating to the accuracy of the Allstate no-fault costing model. I have prepared for the Committee's benefit a chart which compares the projections made by the Allstate model based on an adequate rate level prior to implementation of no-fault plans in five states with what real world experience demonstrates is the actual cost of those plans.

You will note, for example, that in Florida our model predicted, on an average statewide basis, a necessary premium of $85.00. However, real world experience has now revealed that the adequate rate for the affected coverages should have been $92.00. Both figures are in terms of 1972 dollars so as to eliminate the effect of inflation when relating pre-no-fault with no-fault data. I indicated that the model projected the necessary premium of $85.00, but when the Florida plan was enacted we were forced by law to reduce our rates from those which had previously existed and were at that time inadequate. Our actual introduction no-fault rate in that state was $68.70. Thus, we were charging on an average statewide basis $16.30 less per policyholder for the affected coverages than we should have been charging to make our no-fault rates adequate as predicted by the costing model and a total of $23.30 per policyholder less than the observed experience indicates (even disregarding the inflationary impact subsequent to 1972). This legislatively mandated rate reduction has, together with the

observed adverse experience under no-fault, produced major underwriting losses for Allstate in the State of Florida and, consequently, we have been forced to take two rate increases there in the past two years. In this connection, I think it is extremely important for the Committee to bear in mind that S. 354 does not preclude the possibility of mandated rate reductions at the state level, which, while politically popular, could, coupled with the serious adverse cost ramifications of S. 354, push significant portions of the already-strained insurance business further into the red.

Returning now to a review of the accuracy of the Allstate model, you will note that in Connecticut the model projected in terms of 1973 dollars a necessary rate of $80.10, while developed data for 1973 now reveals that we should have been charging $82.80 (again disregarding subsequent inflation). Again, our costing model was conservative as costs turned out to be even more than the model projected. In New Jersey our model predicted in terms of 1973 dollars a necessary rate of $111.10, and our now developed 1973 experience reflects that we should have been charging $117.10. Again, even disregarding subsequent inflation, the Allstate model somewhat underprojected real world costs. In Maryland in terms of 1973 dollars we projected a necessary rate of $102.20. Experience now developed for only a two-year period reveals a necessary rate of only $97.40. Here the Allstate model is somewhat high, but only by $4.80 per policyholder on an average statewide basis. Thus, we clearly consider this figure to be close enough to the model projection to

preclude any allegation that the model was excessively high. Moreover, further development of these statistics quite possibly will reveal that the $102.20 figure is very close to the actual adequate rate, since no-fault experience development has continued upward in all states observed. In Oregon in terms of 1972 dollars our model projected a necessary rate of $59.70, but experience developed to date reveals that we should have been charging a premium in Oregon of $57.20 -- a result reflective of the model's accuracy.

The foregoing convinces us that the Allstate model is reliable and predicts costs very close to those actually experienced in the real world operation of the no-fault scheme in question. We have not experienced in any state to date results under a no-fault scheme which reveal anything but the fact that the pricing projected prior to implementation of the no-fault measure was clearly in the vicinity of the pricing actually required and was in most instances too low, thereby producing an inadequate estimated premium.

Having demonstrated the model's accuracy, I will now turn to discuss our projections with respect to the cost ramifications of S. 354 on the citizens of each of the fifty states. As in the past, we have broken out our policyholders into two groups in order to more accurately measure the cost impact of the coverages required by S. 354. Group A represents those policyholders which carry only BI liability and UM coverage. In no-fault states this minimum coverage also includes the required first party coverages. The Group B coverage includes, in addition to these

coverages, the optional medical payments or voluntary no-fault coverage which about 75 to 80% of our policyholders purchase. The fifty-state costing attached to this statement reveals that private passenger car owners now carrying type A coverage will in twenty states be forced to pay in excess of 50% more for their automobile insurance than they are paying today. Car owners carrying type B coverage will in twenty-four states be forced to pay in excess of 30% more for their automobile insurance. In only five states will the average policyholder in Group B benefit by a reduction.

A display of all fifty states would be cumbersome. Consequently, I have prepared a chart demonstrating the cost ramifications of S. 354 on the citizens of those states represented by members of this Committee.

State	Coverage Group A*	Coverage Group B*
Washington	+68	+32
Rhode Island	+11	-2
Indiana	+55	+40
Michigan	-4	-4
Nevada	+29	+29
Louisiana	+27	+10
Utah	+82	+82
South Carolina	+32	+32
Hawaii	+15	+15
California	+37	+16
Kentucky	+16	+2
Kansas	+97	+97
Alaska	+51	+32
Maryland	-1	-1
New York	-1	-1
Connecticut	+13	+13

As can be seen, there is substantial diversity in the effect on citizens in the various states. Citizens in Michigan and New York could benefit slightly, since the increases in first party benefits resulting from S. 354 are not significant and the more restrictive tort threshold acts to net out a small savings. Conversely, citizens in Kansas and Utah could expect substantial rate increases due to substantial increases in first party benefits and the limited potential impact of the S. 354 tort threshold on the present low residual no-fault bodily injury rates.

As this Committee is well aware, numerous state plans have been enacted. No-fault schemes restricting tort are now in effect in sixteen states, and automobile insurance reform measures which do not preclude rights of action in tort are in effect in an additional nine states. The approach taken in these bills with respect to the attempted reduction in the number of causes of action in tort differs considerably. Florida, for example, provides for a $1,000 medical threshold. New Jersey, on the other hand, provides for a $200 medical threshold but the threshold is related only to soft tissue injuries. Connecticut provides for a $400 medical threshold, while Michigan provides a verbal threshold pursuant to which an individual is not entitled to pursue a cause of action in tort unless he suffers "serious injury". New York provides a simple $500 medical threshold.

The level of first party benefits also differs considerably from state to state. Florida provides a total of $5,000 in first party benefits, while New Jersey provides essentially unlimited medical benefits plus specific

benefits for other economic loss. Connecticut provides for a package of first party benefits of $5,000, while Michigan's benefit package is much richer and provides for unlimited medical, and other economic loss compensation in the total amount of approximately $40,000. New York provides total first party benefits in the amount of $50,000.

We now have experience which has been allowed to develop for a period substantially in excess of one year with respect to the plans in Florida, New Jersey, and Connecticut. We have similar experience from the States of Maryland and Oregon, which have simple add-on plans, although Oregon's plan does preclude duplication of benefits while Maryland allows it. We have what we consider to be less reliable no-fault data with respect to Michigan, as that State's plan has been in effect just slightly over a year, and from the State of New York, as statistics from the operation of that State's plan are based essentially for only an eleven-month period.

I can personally testify that Allstate has, as I am sure have most other companies in the industry, been deeply involved in close scrutiny of statistics involving experience in these various states in an attempt to reach some conclusions with respect to the optimum approach to no-fault in a given type of state with given types of population density and geographic characteristics. Regrettably, this continuous study has borne little fruit, except that we do know that no-fault as it now exists in various states is not an effective cost saver. Furthermore, no-fault insurance is not working in any state, in our opinion, in the total manner in which it was predicted

by its supporters (including Allstate). Clearly, most of these reform measures do tend to reduce the frequency with which people pursue causes of action in tort. This reduction in frequency is, as would be expected, less in states which provide no specific tort preclusion or where there is a provision for subrogation; but no conclusion can necessarily be reached at this point in time with respect to which type of tort preclusion mechanism will reduce frequencies to the greatest or most efficient extent. For example, we can now observe that similar tort preclusion provisions in analogous states work quite differently. Even the so-called add-on plans have tended to reduce frequencies of bodily injury claims, although the specific statutes involved do not require it. Oregon, for example, has experienced an approximate 30% reduction in the frequency of bodily injury claims, and Maryland has experienced an approximate 20% reduction in such claims. It should be noted that frequencies of bodily injury claims were generally declining prior to the no-fault introduction, and how much of these experienced reductions can be attributed to no-fault and how much to a continued trend is not identifiable. The fact that almost all reform efforts of any nature have led to a reduction in the frequency of bodily injury claims might lead one to the conclusion that reform measures, particularly those restricting the right to sue in tort, are operating just as designed. Such is simply not true. The theory of no-fault is to reduce the number of cases which are litigated, to accumulate the dollar savings as a result of the reduction in litigation and associated costs (including the cost of attorneys fees), and to direct

such savings toward the payment of increased first party claims. Furthermore, it was felt that if small claims could be removed from the tort system, the substantial overpayment of such small claims settled pursuant to the "nuisance theory" would be eliminated, and this dollar savings could also be directed toward the payment of first party benefits. Theoretically, this would result in a more equitable distribution of funds already in the system. However, in the real world the theory of no-fault is not functioning properly under any of the schemes which are now in existence. For, while frequencies have indeed decreased, the severity levels have increased so substantially as to result in total bodily injury liability payments essentially equal to or exceeding those which were occurring under the old system. Accordingly, the substantial payments required under the first party mechanism lead to only increased costs necessitating additional rate increases and the imposition of additional cost burdens on the citizens of the states involved. I have prepared a chart which demonstrates the net effects of the interrelationship of the drop in frequencies with the increase in severities. You will notice that in Florida we experienced an approximate 65% decrease in the frequency level of bodily injury claims. However, we have at the same time experienced an approximate 230% increase in the severity of such claims. Thus, in Florida our payouts for third party bodily injury liability claims in the no-fault system, including attorneys fees, are somewhat higher now than they were previous to implementation of that plan. No money has been

saved, and while admittedly more people are now being paid in Florida under the first party benefit provision, an anticipated laudable result, the citizens of that state are going to be required, if they have not already, to pay more for their automobile insurance than they would perhaps have been under the old system.

In this connection, and in response to Senator Moss' request for benefit comparisons, it must be remembered that any scheme which adds first party benefits to the mechanism will indeed pay benefits to more people. Obviously this would be the case if medical payments coverages, now available in all states, were mandated by law. However, Senator Moss seemed to be interested in comparing the costs of the new system with the benefits thereof, as opposed to the costs and the benefits of the tort system. In so doing he seemed to be assuming huge efficiencies under the new system, which, on the basis of experience to date, is not a safe assumption. Our Florida experience and the results from other states, including what we anticipate from Michigan, seem to indicate that the savings in the bodily injury component, necessary to validate the Senator's assumption, have not been and, absent some unknown kind of refinement, will not be forthcoming.

Early indications are that New York, which has experienced a 40% reduction in frequencies, has experienced a 50% increase in severities, again bringing the total cost of the bodily injury coverage in line with those previously in existence. The more developed figures in New Jersey also

reflect a 40% reduction in frequency, but again a 50% increase in severity. In Connecticut, which has experienced the second most dramatic drop in frequencies, severities have increased by 250%, bringing the bodily injury coverage costs slightly above those previously in existence. Oregon is a state which has yet to reach equality of cost for the bodily injury liability coverage, as frequencies have dropped in Oregon by 25% and severities have increased by only 20%. In Maryland frequencies dropped by 20%, but severities increased by 50%, bringing the cost of the bodily injury coverage to a point clearly in excess of that which was obtained under the old system. In Michigan the figures are even more dramatic, but I caution that the number of bodily injury actions which have been brought to date do not provide, in our opinion, a sound statistical data base on which to premise any serious conclusions. In Michigan frequencies have dropped more than 80%; but if our assumption is correct that this frequency will subsequently increase considerably after the constitutional uncertainties surrounding that bill have been clarified, the costs of that plan to the citizens of that state will indeed rise dramatically. However, the limited experience we now have reveals that the judgments and settlements in tort liability actions in that state have increased almost 400% over the average judgment rendered under the tort system. Even with respect to this early experience, the costs of the bodily injury coverage in Michigan have not decreased as much as anticipated under the new law and, as stated, we expect these early valuations of cost to rise as the experience matures.

These phenomena are not totally inexplicable. The rise in third party severity, or the cost of each claim, has obviously been influenced by inflation. With or without no-fault, the cost of providing goods and services would have increased. Also, since a tort threshold precludes the pursuit of small third party claims, the removal of these from the system would raise the average, based on the claims remaining. But part of this rise in severity seems to have little to do with inflation. For example, a seriously injured person with a claim for $20,000 under the prior system would still be able to pursue a claim under no-fault. We expected to still pay a claim for $20,000 for similar injuries, adjusted only to account for inflation. What we did not expect was to be paying many more claims, not as a percentage, but as actual numbers of claims in the higher loss amount categories. The next chart shows that in Florida and New Jersey the number of paid third party bodily injury claims providing compensation in excess of $20,000 has increased 100% over the old system.

It appears that many $5,000 claims are now $10,000 claims, and that some $15,000 claims are now over $20,000. Conjecture is the only source of conclusion at this time, but certain theories have evolved: (1) Jury attitudes have changed, and an accident victim who has "crossed the threshold" now belongs in a special, sympathetic category of being especially deserving of an award (both insurance companies and plaintiffs' lawyers seem to be well aware of this). (2) A "financing" of third party actions with first party payments is emerging. This concept is premised on the theory that third party claimants and their attorneys are operating

under a disincentive to cease using benefits, because such will allow the claimant to "cross the threshold" and to build his special damages in an attempt to realize a larger pain and suffering award. Furthermore, the claimant has no reason to settle quickly because he is experiencing no out-of-pocket loss.

As indicated, these are not reasons based upon fact, but rather are hypotheses requiring further examination and analysis. All of these or none of these may be present in a given case or in general, but at this point in time we just do not know.

Mr. Schaffer

The foregoing, in our opinion, clearly vindicates our historical position that S. 354 will increase the cost of automobile insurance to most Americans and in many instances increase the costs dramatically; that too little is known about no-fault and how it will impact on consumers, accident victims, lawyers, and insurance companies in real world operation; and that a Federal solution aimed at problems which do not exist in all states and constructed from theories which could not possibly work in many states will produce results inimical to the best interests of a large portion of our population.

While we have concentrated today on these singularly important questions, we are by no means of the opinion that S. 354 is not without other serious failings.

First, I would like to discuss the two major new items added to S. 354 during floor debate. This Committee has not yet had an opportunity to consider these amendments in detail. Section 201 requires the Secretary of Transportation to review on an annual basis the operation of no-fault plans and to report back to Congress with respect to, among other things, the cost savings that result from such plans (and there will be none); the appropriate method of refunding such savings; the impact of no-fault insurance on senior citizens, farming communities, and the poor; the impact of the problems of duplication of benefits on court congestion and delay; the impact on insurance rates resulting from reduced speed limits and other factors; and the impact of no-fault with respect to the competitive position of small insurance companies.

We know of no better support for the position of Allstate Insurance Company that action at this time would be premature because too little is now known, than the precise provisions of Section 201(b). Congress seems here to be clearly admitting that it is uncertain about the probable impact of S. 354, but chooses rather to impose a national cure without testing the treatment. Obviously, the states with present no-fault laws are the existing laboratories to test and resolve the issues about which S. 354 expresses concern. Furthermore, the Department of Transportation's responsibilities under Section 201(b) are clearly duplicative of the responsibilities currently imposed on State Insurance Commissioners. The waste in the duplication of effort and public expense is clear.

If the policy aim of Section 201(b) is a laudable one, that is, if the study of the operation of no-fault plans is clearly warranted, then Congress should table S. 354 and enact a separate bill along the lines of Section 201(b), charging the Department of Transportation with the responsibility to update its now antiquated study and to report back to Congress on the results from the variety of no-fault programs now in existence.

The second major floor amendment to S. 354 is contained in Section 208(c) of the bill. In pertinent part it provides that an individual may, if a state statute so allows, choose to receive benefits required by S. 354 under his group insurance policy. This approach frustrates some of the major policy considerations underlying S. 354, and in many instances also works to the detriment of the individual accident victim.

For example, a victim would be required to deal with more than one insurance carrier in contravention of the historical claim of the proponents of S. 354, that such would simplify administrative procedures and thereby reduce costs by allowing a victim to deal exclusively with his own automobile insurance company.

I now turn finally to mention some of the other provisions of S. 354 with respect to which we have historically voiced opposition. S. 354 provides for what we believe to be an unworkable and impractical administrative and enforcement mechanism. Too many gaps exist which could seriously impede the efficient operation of no-fault laws in the various states.

For example, if a state fails to enact a Title II plan, Title III automatically comes into effect in that state. However, unless the state gratuitously agrees to administer the Federal law and to pay for it, a prospect which does not seem likely, there exists no enforcement or administrative mechanism to take over. Clearly, court action cannot be relied upon each time an administrative decision is required. Furthermore, whether a state or state official can be compelled to perform specified duties when such lay outside the scope of authority granted by state law or are in clear contravention of state law, are important questions which must be squarely faced if the potential damaging consequences of an adverse court ruling are to be avoided.

By prohibiting subrogation or any equitable distribution of loss payments among insurance companies, S. 354 seems clearly to penalize the careful driver of the private passenger automobile to the benefit of the bad driver and the commercial trucking industry. This issue has received a substantial amount of attention in the past, and we find it difficult to understand why the drafters of S. 354 continually refuse to respond to what would appear to be, on the basis of a variety of studies on the question, the clear demands of the public. We would be happy to provide the Committee with a summary of these studies.

S. 354 allows the use of deductibles and waiting periods with respect to basic benefits. This is an obvious attempt to reduce costs, but a close examination reveals that such will operate to the serious detriment of many accident victims, particularly those in the lower economic strata. This because a poor man who is a victim of an automobile accident will be forced

to incur the first $100 of his losses and to pay for his first week of hospitalization, simply because economies have forced him to buy the least expensive automobile insurance policy. However, in a vast majority of cases such a poor man may simply not be able to absorb these expenses, and thus would have to forego treatment in complete frustration of the most important goals of S. 354.

Summary

We are not here today to oppose meaningful reform. We are here to oppose an untried and untested system which will increase the cost of automobile insurance. These increased costs will be borne by the individual consumer or, during an interim period, by the insurance companies. Neither can afford them.

We must deliver to our customer and service the product ultimately required by either state or Federal law. To meet the customer's expectations it must cost less, perform better, and operate as advertised. The product envisioned by S. 354 can meet none of these tests.

Consequently, we urge that the Committee seriously consider the new evidence now before it and refrain from mandating a Federal solution. Mature experience from existing state plans will provide a reliable road map for the route to future reform. No clearly designated national path is yet available.

FIFTY-STATE COSTING OF S. 354

State	Group A	Group B
Alabama	+55.0	+31.6
Alaska	+51.3	+31.9
Arizona	+53.0	+30.7
Arkansas	+42.7	+23.2
California	+37.3	+15.6
Colorado	+53.8	+53.8
Connecticut	+13.2	+13.2
Delaware	+20.3	+15.1
District of Columbia	+ 7.9	- 0.7
Florida	+28.3	+21.4
Georgia	+69.3	+69.3
Hawaii	+14.5	+14.5
Idaho	+83.7	+50.1
Illinois	+23.7	+ 3.6
Indiana	+55.1	+40.0
Iowa	+69.0	+39.2
Kansas	+97.1	+97.1
Kentucky (1)	+15.6	+ 2.2
Louisiana	+26.7	+ 9.7
Maine	+31.4	+14.4
Maryland	- 0.9	- 0.9
Massachusetts	+ 5.1	- 0.2
Michigan	- 4.4	- 4.4
Minnesota	+61.9	+61.9
Mississippi	+31.7	+ 8.5
Missouri	+25.9	+ 9.8
Montana	+82.2	+48.2
Nebraska	+84.7	+53.0
Nevada	+28.8	+28.8
New Hampshire	+18.2	+ 1.1
New Jersey	+16.4	+16.4
New Mexico	+67.0	+34.7
New York	- 0.5	- 0.5
North Carolina	+43.2	+20.0
North Dakota	+92.9	+56.5
Ohio	+37.7	+20.6
Oklahoma	+34.4	+11.2
Oregon	+36.4	+36.4
Pennsylvania (2)	+39.5	+39.5
Rhode Island	+11.0	- 1.7
South Carolina	+31.6	+31.6
South Dakota	+92.9	+52.6
Tennessee	+22.6	+ 4.1
Texas	+24.4	+24.4
Utah	+82.2	+82.2
Vermont	+71.8	+43.9
Virginia	+64.3	+45.9
Washington	+68.2	+32.0
West Virginia	+36.0	+12.4
Wisconsin	+30.6	+16.2
Wyoming	+95.9	+46.7

(1) Kentucky - Present premiums for no-fault, effective 7/1/75, are not available

(2) Pennsylvania - Present premiums are based on projected no-fault costs as of 7/19/74.

ALLSTATE COSTING MODEL
COSTING RECONCILIATION

	Model Indication	First Year Experience Indication
Florida	$ 85.00	$ 92.00
Connecticut	80.10	82.80
New Jersey	111.10	117.10
Maryland	102.20	97.40
Oregon	59.70	57.20

Model predicts rates needed for a No-Fault package including Bodily Injury Liability, Uninsured Motorist and Personal Injury Protection coverages based on adequate rates for tort system Bodily Injury Liability, Uninsured Motorist and Medical Payments coverages.

COST RAMIFICATIONS OF S-354

State	Coverage Group A[1]	Coverage Group B[2]
Alaska	+51%	+32%
California	+37	+16
Connecticut	+13	+13
Hawaii	+15	+15
Indiana	+55	+40
Kansas	+97	+97
Kentucky	+16	+ 2
Louisiana	+27	+10
Maryland	- 1	- 1
Michigan	- 4	- 4
Nevada	+29	+29
New York	- 1	- 1
Rhode Island	+11	- 2
South Carolina	+32	+32
Utah	+82	+82
Washington	+68	+32

(1) Includes BI, UM and in no-fault states the required PIP coverages as a base for comparison.

(2) Additionally includes the optional Medical Payments or voluntary no-fault coverages.

NO-FAULT THRESHHOLD EFFECT ON BODILY INJURY FREQUENCY AND SEVERITY

State	Threshhold	Bodily Injury (Relative to Tort System) Incurred Frequency	Incurred Severity	Combined
Florida	$1,000	.35	3.30	1.15
New York	500	.60	1.50	.90
New Jersey	200	.60	1.50	.90
Connecticut	400	.30	3.50	1.05
Oregon	None	.75	1.20	.90
Maryland	None	.80	1.50	1.20
Michigan	Serious Injury	.15	5.00	.75

NO-FAULT EFFECT ON CLOSED CLAIM SEVERITY

(All Report Years Evaluated at 24 Months Development)

Number of Closed Claim Counts

Claim Interval $	FLORIDA Report Year 1971	FLORIDA Report Year 1973	NEW JERSEY Report Year 1972	NEW JERSEY Report Year 1973
0 - 5,000	7,057	1,671	7,804	3,932
5,000 - 10,000	369	391	180	176
10,000 - 20,000	137	191	83	108
Over 20,000	47	94	37	62
Total Counts	7,610	2,347	8,104	4,278
Total Dollars	$12,850,000	$13,629,000	$9,789,000	$9,175,000

NEWS FROM THE ALLSTATE INSURANCE COMPANIES

Tel: Ray Ewing
Washington Contact
202/659-9540

FOR RELEASE WEDNESDAY, APRIL 30, 1975

ALLSTATE'S STUDY SHOWS NATIONAL NO-FAULT WOULD INCREASE AUTOMOBILE INSURANCE COSTS

Washington, D. C. --

The proposed National No-Fault Motor Vehicle Insurance Act, S. 354, would increase insurance costs to motorists in 45 states from 4% to 97%, an Allstate Insurance Company actuarial study reveals. The actuarial study was based on a computer model which has been proven in the real world experience of no-fault states to reliably predict automobile insurance costs.

"We believe our cost study clearly reveals that the proposed National No-Fault Automobile Insurance system will increase the cost of automobile insurance to most Americans and in many instances increase the costs dramatically," Allstate's Vice President and General Counsel, Donald L. Schaffer, said in a prepared statement to be presented to the United States Senate Commerce Committee today. "The cost increases predicted in the study should cause the (Commerce) Committee to reconsider whether the financial condition of consumers will permit enactment of S. 354. For example, the average Utah Allstate policyholder will pay $41.00 more for his automobile insurance if S. 354 is passed."

"Too little is known about no-fault and how it will impact on consumers, accident victims, lawyers, and insurance companies in real world operation to warrant the imposition of a monolithic and irreversible Federal system.

more . . .

In fact, no-fault is not functioning precisely as anticipated under any of the plans which are now in existence in many states."

"The theory of no-fault is to reduce the number of automobile accident lawsuits and to direct the savings resulting from this reduction toward the payment of accident victims' out-of-pocket medical, wage, and other losses regardless of whether he was at fault in the accident. However, experience in the states to date indicates that those anticipated savings are not being realized. Automobile liability insurance losses are costing as much under no-fault as they did before. Thus, policyholder no-fault benefits for the out-of-pocket losses of accident victims result in additional costs not offset by liability savings, which the consumer will ultimately have to pay," the Allstate executive said.

"An expensive Federal solution attempting to solve problems which do not exist in all states and constructed upon theories which will not possibly work in many states will produce results contrary to the best interests of a large portion of our population," Allstate's Vice President declared.

"Allstate is not opposed to meaningful reform at the state level. We are here to oppose on a national basis an untried and untested system which will increase the cost of automobile insurance. These increased costs will be borne by the individual consumer or, during an interim period, by their

insurance companies. Neither can afford them in today's economic environment."

"Insurance companies must deliver to their customers and service the product ultimately required by either state or Federal law. To meet the customer's expectations the insurance product must cost less, perform better, and operate as advertised. The insurance product envisioned by S. 354 can meet none of these tests," Schaffer concluded.

# # #

Note: Fifty-state costing exhibit attached.

ALLSTATE'S FIFTY-STATE COSTING OF S. 354

State	Percentage Price Increases Resulting from S. 354 Group A *	Group B **
Alabama	+55.0	+31.6
Alaska	+51.3	+31.9
Arizona	+53.0	+30.7
Arkansas -	+42.7	+23.2
California	+37.3	+15.6
Colorado +	+53.8	+53.8
Connecticut +	+13.2	+13.2
Delaware -	+20.3	+15.1
District of Columbia	+ 7.9	- 0.7
Florida +	+28.3	+21.4
Georgia +	+69.3	+69.3
Hawaii +	+14.5	+14.5
Idaho	+83.7	+50.1
Illinois	+23.7	+ 3.6
Indiana	+55.1	+40.0
Iowa	+69.0	+39.2
Kansas +	+97.1	+97.1
Kentucky (1) +	+15.6	+ 2.2
Louisiana	+26.7	+ 9.7
Maine	+31.4	+14.4
Maryland -	- 0.9	- 0.9
Massachusetts +	+ 5.1	- 0.2
Michigan +	- 4.4	- 4.4
Minnesota +	+61.9	+61.9
Mississippi	+31.7	+ 8.5
Missouri	+25.9	+ 9.8
Montana	+82.2	+48.2
Nebraska	+84.7	+53.0
Nevada +	+28.8	+28.8
New Hampshire	+18.2	+ 1.1
New Jersey +	+16.4	+16.4
New Mexico	+67.0	+34.7
New York +	- 0.5	- 0.5
North Carolina	+43.2	+20.0
North Dakota +	+92.9	+56.5
Ohio	+37.7	+20.6
Oklahoma	+34.4	+11.2
Oregon -	+36.4	+36.4
Pennsylvania (2) +	+39.5	+39.5
Rhode Island	+11.0	- 1.7
South Carolina -	+31.6	+31.6
South Dakota -	+92.9	+52.6
Tennessee	+22.6	+ 4.1
Texas -	+24.4	+24.4

- more -

State	Group A *	Group B **
Utah +	+82.2	+82.2
Vermont	+71.8	+43.9
Virginia	+64.3	+45.9
Washington -	+68.2	+32.0
West Virginia	+36.0	+12.4
Wisconsin -	+30.6	+16.2
Wyoming	+95.9	+46.7

* Includes coverages carried by approximately 30% of Allstate policyholders who have bodily injury liability, uninsured motorists' and in no-fault states, the required personal injury protection coverages.

**Includes coverages carried by approximately 70% of Allstate policyholders who have the same coverages of Group A plus optional medical payments or voluntary no-fault coverages.

1) Kentucky - Present premiums for no-fault, effective 7/1/75, are not available.

2) Pennsylvania - Present premiums are based on projected no-fault costs as of 7/19/74.

25 States now have some form of no-fault insurance

\+ States which have some restriction of the right to sue for pain and suffering.

\- States which have provided for first-party benefits without restricting the right to sue for pain and suffering.

Brought to ... 10/14

OCT 9 1975

THE WHITE HOUSE

WASHINGTON

October 8, 1975

MEMORANDUM FOR: JACK MARSH
MAX FRIEDERSDORF

FROM: PATRICK O'DONNELL

SUBJECT: No-Fault

The rumor mill is very active to the effect that Secretary Coleman will soon urge an all-out effort to have the President change his position on No-Fault.

Votes are there in Senate to defeat a Federal program (we have picked up such doubtfuls as Hatfield, Hollings, Hartke, etc.), and we ought not allow anyone to mislead the President in this regard.

D File

OCT 1 0 1975

October 18, 1975

MEMORANDUM FOR: JIM CANNON

FROM: MAX FRIEDERSDORF

In reference to your memorandum relating to Secretary Coleman's request for reconsideration of the administration position regarding No-Fault Insurance, I recommend Option A which provides that we maintain our current position of non-support.

I am attaching a letter to the President dated October 6 and signed by 17 Senators who are among the President's strongest supporters in the Senate.

You will note that these 17 Senators urge continued opposition to no-fault.

The list includes two members of the Senate Republican leadership, five ranking minority committee members of the Senate, and two Democratic chairmen.

I believe that to reverse the administration position on no-fault at this time would cause us grievious problems with these 17 Senators whose support we need on numerous other issues during the remainder of the 94th Congress.

cc: Greenspan
Lynn
Marsh
Seidman

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

October 6, 1975

The President
The White House
Washington, D. C.

OCT 15 1975

Dear Mr. President:

As you know, federal No-Fault Automobile Insurance remains very much a subject of discussion and debate in the Congress. Those of us who oppose Congressional enactment in this field have taken great comfort in your opposition to such a measure. We urge that you maintain that position.

The several states are best suited to perfect new ideas in insurance. The no-fault concept embraces many options and numerous specific forms. Already 24 states have enacted plans, each different from the other, each designed to meet the diversity found among peoples and conditions. It seems preposterous to contend that the wisdom of Congress is so great as to contrive a single plan out of the host of available plans, and come up with a result which is reliable and of assured workability and benefit.

This year, a new aspect emerges.

Your Administration has commendably committed itself to a reform and reduction of ever-expanding, oppressive federal regulation of the private sector. We submit that federal no-fault will massively and harmfully add to such regulation. And in a field served adequately and in an infinitely superior method by the states.

We are confident we can defeat this federal no-fault measure, but we must have your support.

Sincerely,

Strom Thurmond
Strom Thurmond

James A. McClure
James A. McClure

Paul J. Fannin
Paul J. Fannin

Roman L. Hruska
Roman L. Hruska

Jesse Helms
Jesse Helms

Carl T. Curtis
Carl T. Curtis

John Tower

Milton R. Young

John L. McClellan

Dewey F. Bartlett

James O. Eastland

John C. Stennis

James B. Allen

Jake Garn

Bill Brock

Clifford P. Hansen

James L. Buckley

THE WHITE HOUSE

WASHINGTON

October 16, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF ✓
ALAN GREENSPAN
JIM LYNN
JACK MARSH
BILL SEIDMAN

FROM: STEVE MCCONAHEY SOM
Associate Director
Domestic Council

SUBJECT: Reconsideration of Postion Regarding No-Fault Insurance

Attached for your review and comment is a draft memorandum to the President outlining Secretary Coleman's request for reconsideration of the President's earlier decision not to support Federal no-fault legislation. Attached is a copy of Secretary Coleman's letter to the President along with his back-up material.

Please review this material and offer your reactions to the issue of reconsideration and to the content of the draft memo by close of business, Wednesday, October 22nd.

Attachment

DRAFT

DECISION

October , 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CANNON

SUBJECT: No-Fault Insurance

Secretary Coleman has requested reconsideration of your earlier decision not to support Federal no-fault insurance legislation. The Secretary cites as reasons for reconsideration the resolution of a constitutional issue raised earlier by the Attorney General, additional evidence that under certain conditions rates will decline with a no-fault system, and the increasing likelihood of Congressional approval of no-fault legislation.

In reaching your earlier decision not to back no-fault legislation, you indicated support for the concept but expressed your belief that it was an issue for the States to resolve. In addition, key Minority members were opposed to Federal legislation and standards at that time. Therefore, the issue at hand is whether, based on Secretary Coleman's information and other factors, you wish to reopen this issue for possible Administration action and support.

opposition to Federal legislation among key Minority members. There is in their minds the lingering question of why Federal action is needed if States have the opportunity to enact their own insurance laws.

Clearly Secretary Coleman urges reconsideration and support for no fault at a time when he feels outcome of the bill can still be affected to your advantage. OMB has suggested that you not proceed until a clearer sign is given by the Congress and the Minority as to where they stand. If a decision is made to reconsider, there is also the option of withholding your support until the State of the Union message. However, anticipated action by the Congress before the end of the year would negate this option.

Based on this information and these circumstances, your guidance is requested on how to proceed.

OPTION A

_____ Maintain current position of non support.

OPTION B

_____ Informally contact Minority members to clarify their position and assess possibility of compromise, then determine how to proceed.

OPTION C

_____ Reconvene a White House meeting to review the issue and structure a firm proposal.