

IMPACT OF SELECT MONEY MANAGEMENT PRACTICES
ON HOUSEHOLD SOLVENCY STATUS

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ABSTRACT

This study examined the influence of selected sociodemographic characteristics and money management practices on household solvency status. Results indicated that money management practices were more significant in predicting household solvency status than sociodemographic characteristics. Specifically, practices related to credit card management were the most significant predictors of household solvency status.

NEED FOR THE STUDY

The importance of financial management is emphasized in personal finance textbooks, formal classwork in family financial management, and by persons in the helping professions of adult education, social work, debt and financial counseling. These sources claim money management practices contribute to financial security and independence.

Empirical studies have indicated a correlation between high household income and affluence, yet some households appear to attain similar levels of living with less income. The literature also shows that some high income households are deeply in debt. The difference in these households may be in the management of their financial resources.

Most of the previous studies have been descriptive rather than diagnostic. These studies have indicated who is most likely to have a budget, use credit cards, save and invest money, or keep financial records. Results of these managerial practices have been reported only in relation to satisfaction with practices Newton [6]. Furthermore many of the studies lack generalizability due to focus on population subgroups such as young married couples, Guadagno [5]; urban families, Williams, Nall, and Deck [12]; retired couples, Pulley [8]; couples with teenage wives, Romino [9]; urban couples receiving old age assistance, Golden [4]; employed and non employed wives, Caudle [2]; and young families, Wells [11].

Thus, there is a need for a study which focuses on the money management practices of the general public rather than a population subgroup. The study should also be expanded to analyze the relationship of money management practices to the household's solvency status. Empirical evidence would assist households, educators and those in helping professions to decide whether the emphasis should be on improved money management or increased resources to cope with the

current economic climate.

METHODS

Objectives of the Study

The primary objective of this study was to examine the influence of selected sociodemographic characteristics and money management practices on households' solvency status. The specific objective was to ascertain the money management practices that are predictive of household solvency status.

Sample

Data for this study were collected during the winter of 1982, through personal interviews administered by trained interviewers. The sample for this study was an area sample of housing units designed to represent all housing units in Marshalltown, Iowa. Fewer than five (5) housing units were reassigned because of respondent refusal. The final sample included 201 cases, however three cases were deleted, reducing sample size to 198. Marshalltown, Iowa, was selected due to its size, location and diverse population base. It has a total population of 27,000 and varied industries including Lenox, Fisher and Swift in addition to farming. The person selected to be interviewed was the person who had the major responsibility for money management in the household.

Variables

The independent variables included socioeconomic characteristics of the money manager and money management practices. Sociodemographic characteristics included: household size, marital status, years married, sex, age, education, employment status, occupation, net worth. Money management practices included: goal clarification, division of responsibility for money management tasks, saving practices, credit card practices, payment patterns, strategy for meeting unexpected expenses, record keeping practices, estimating income and expenses, reviewing and evaluating spending habits, calculating net worth, and completing total financial review.

The dependent variable, household solvency status was defined as the ability of the household to pay all legal debts. Three potential measures of solvency status include: net worth, amount of debt payment per month, and debt-to-income ratio. Net worth would have been an appropriate measure of the impact of money management practices on household solvency status had this been a time series study. The amount of debt payment per month would have measured practices over too

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short of a time period to reflect accurately the solvency status of the household. Debt-to-income ratio would measure the accumulated debt in relation to the income available to meet the debt obligation thus being a more precise measure of solvency status.

Thus household solvency status was operationalized by using debt-to-income ratio for the household and was calculated by dividing total debt of the household by the total take home pay of the household for the year 1982. Total debt measured the amount of money owed by the household at the time of the interview for credit or charge cards, home improvement or furnishing loans, automobile or other vehicle loans, consolidation loans, personal or nonbusiness loans, and hospital, medical, or dental expenses. Income represented wages, salaries, business or farm income, social security, retirement payments, and child support payments received by all members of the household in 1982.

Structure of Analysis

Frequency, crosstabulation, chi-square and Pearson product-moment correlation analysis were used in the preliminary stages of the study to develop a descriptive profile of the money manager, check the validity of the data, and ascertain statistical significance of relationships between variables.

As a result of this preliminary analysis, 11 variables were retained for regression analysis. These included four sociodemographic characteristics and seven money management practices.

Limitations

A geographic bias is recognized as a limitation of this study. However, the nature of the respondent -- the money manager--and the random, area sample used, facilitate the generalizability of this research to the general public as opposed to a population subgroup. As a pilot study, it has provided a basis for future research. To improve the generalizability of the results, it would be beneficial to conduct additional research with a large sample. A larger sample could include a greater variety and number of geographic areas, plus a mixture of both rural and urban persons.

RESULTS

Profile of Money Managers

The typical money manager in this study was a female with high school education, working full time as a clerical, sales or service worker. She was 41 years of age, had been married 16 years, and resided in a two person household. The average income for the household was \$18,000 with an average net worth of \$52,000. The median debt obligation for the sample was approximately \$308, with a range of zero to \$65,000. The median debt-to-income ratio for the sample was 0.033

with the range being zero to 1.58. Personal finance literature advises that obligating over 20 percent of disposable income to installment payments and other interest bearing debt payments may exemplify the misuse of debt [1,p.260].

Money Management Practices

Fifty-six percent of the money managers verbally identified their financial goals. Money managers primarily assumed the responsibility of money management tasks such as bill paying, budgeting, record keeping and banking. However, in this sample planning and decision making tasks were shared with others in the majority of households.

The median amount of money saved by the household was \$500, whereas 38 percent of the households saved no money during 1982. Forty-two percent of the households used two to four credit cards and about 31 percent did not use any type of credit card. Of those who owned credit cards, twenty-seven percent of the households never incurred a finance charge. Median amounts these money managers felt comfortable owing on the credit cards was \$100, however some managers felt comfortable in owing \$500 and \$1,000 on their credit cards.

A majority of money managers (96 percent) indicated they paid monthly bills as they came due. However approximately 40 percent of the respondents used current income to pay for large expenses such as appliances, furniture, and vacations. A majority of those using borrowed money identified bank loans for their borrowing source.

In this sample 44 percent of the money managers said they relied on insurance to meet unusual expenses, whereas 27 percent used money from savings.

Income and expenses were estimated once each month by 36 percent of respondents while 23 percent indicated they never made such estimates. Approximately 32 percent of the respondents indicated reviewing and evaluating their spending habits on a yearly basis. In response to the frequency of calculating their net worth, 32 percent said they calculated it annually whereas 35 percent indicated not ever having calculated their net worth.

Impact of Sociodemographic Characteristics on Household's Solvency Status

The eight sociodemographic variables used in this study were correlated with solvency status of the household which has been measured using debt-to-income ratio. Table 1 indicates that the strongest correlation in this step of the analysis, was between household size and solvency status. Significant at the .01 level, this correlation implied that managers with larger households had a higher debt-to-income ratio. Age, also significant at .01 level, was negatively related to solvency status, which suggested that older managers were more solvent than younger

TABLE 1. Pearson Product-Moment Correlations of Sociodemographic Variables with Debt-to-Income Ratio

	Sociodemographic Variables							
	Household Size	Marital Status of Money Manager	Years Married	Sex of Money Manager	Age of Money Manager	Education of Money Manager	Employment Status of Money Manager	Occupation of Money Manager
Debt-to-Income Ratio	.204**	.131	-.232*	.074	-.203**	.77*	-.184*	-.023

*= attained level of significance of .05
 **= attained level of significance of .01

managers. However, the overall insignificance of the remaining six sociodemographic characteristics in relation to solvency status appeared to indicate sociodemographic characteristics were not completely responsible for determining money manager's solvency status.

Impact of Money Management Practices on Households' Solvency Status

Seventeen money management practices were analyzed for their relationship to the households' solvency status. As can be seen in Table 2, two practices related to credit card use reflected the strongest correlation with solvency status and both were significant at the .0001 level. Specifically, these two practices were the

number of credit cards used by the money manager's household and the amount of money the manager felt comfortable owing on all credit cards at one time. A weaker, but positive correlation was evident between the frequency of incurring a finance charge and solvency status. It appears that the manner in which the manager used credit cards may have led to higher debt and consequently a high debt-to-income ratio. None of the other practices appeared to be significantly correlated with solvency status.

After examining the results of the Pearson product-moment correlations, four sociodemographic characteristics and 10 money management practice variables were omitted from further analysis.

TABLE 2. Pearson Product-Moment Correlations of Money Management Practices with Debt-to-Income Ratio

Money Management Practice Variables	Debt-to-Income Ratio
1. Use statement to balance checking or share draft account	-.052
2. Division of responsibility for paying bills	-.045
3. Division of responsibility for budgeting	-.011
4. Division of responsibility for record keeping	-.004
5. Division of responsibility for banking	-.025
6. Division of responsibility for planning	.041
7. Division of responsibility for decision making	.103
8. Frequency of estimating income and expenses	.017
9. Frequency of reviewing and evaluating spending habits	.094
10. Completing a total financial review	.079
11. Source of money for yearly expenses	-.027
12. Clarification of financial goal	.145
13. Source of money to meet unusual expenses	.007
14. Number of credit cards used by household members	.409***
15. Frequency of incurring a credit card finance charge	.221*
16. Amount of money comfortable owing on all credit cards at one time	.336***
17. Amount of money saved from 1982 income	-.010

*= attained level of significance of .05
 ***= attained level of significance of .0001

Regression Analysis of Solvency Status on Selected Sociodemographic Characteristics and Money Management Practices

Independent variables retained following Pearson product-moment correlation analysis to use in regression analysis were: household size, marital status, age, education, division of responsibility for decision making, frequency of reviewing and evaluating spending habits, completing a total financial review, financial goal clarification, the number of credit cards used by the household, frequency of incurring finance charges, and amount the manager felt comfortable owing on all credit cards.

Regression analysis of both selected sociodemographic characteristics and money management practices, Table 3, yielded an overall F value of 6.50 which was significant at the .0001 level. The R² of .403 indicated that 40.3 percent of the variation in solvency status was explained by sociodemographic characteristics and money management practices.

Two independent variables, number of credit cards used and the amount of money the manager was comfortable owing on all credit cards were significant in the full model regression of solvency status which included selected sociodemographic characteristics and money management practices. The number of credit cards used by the household had a T value of 5.47, which was significant at the .0001 level. The amount of money the manager felt comfortable in owing on all credit cards was significant at .0007 level with a T value of 3.48.

These two variables were thus the most significant predictors of a money manager's debt-to-income ratio. Both coefficients were positive in the regression, suggesting that the greater the number of credit cards, and the larger the amount the household was willing to charge against those cards resulted in a higher debt-to-income ratio for the money managers which meant a lower level of solvency.

Although there was not a significant relationship between age of the money manager and solvency status, or between a completed total financial review and solvency status, it was interesting to note that solvency status was negatively related to both of these variables. The negative relationship suggested that older managers in this study were more solvent than younger managers. Managers who had completed a total financial review were more solvent than those who had not completed such a review.

CONCLUSION

A desired outcome of this research was empirical evidence which would help households, educators, and those in helping professions decide whether emphasis should be improved money management or increased resources to cope with the current economic climate. The results of this research indicated that money management practices were more significant in predicting household solvency status than sociodemographic characteristics. Thus the emphasis should be improved money management with particular focus on credit

TABLE 3. Regression Analysis of Solvency Status on Selected Sociodemographic Characteristics and Selected Money Management Practices

	Estimate b_i	T ($H_0: b_i = 0$)	PR> T
Constant	-.170	-1.22	.2265
Household Size	.012	.82	.4148
Marital status of money manager	.024	.56	.5734
Age of money manager	-.001	-1.10	.2722
Education of money manager	.007	.98	.3314
Division of responsibility for decision making	.006	.12	.9037
Frequency of reviewing and evaluating spending habits	.002	.17	.8620
Completed a total financial review	-.020	-.56	.5754
Had a clarified financial goal	.013	.31	.7595
Number of credit cards used by the household	.035	5.47	.0001*
Frequency of incurring a credit card finance charge	.017	1.42	.1589
Amount of money the manager was comfortable owing on all credit cards	.819 x 10 ⁻⁴	3.48	.0007*

df = 11 and 106
R² = .403
F = 6.50
Pr> F = .0001
* = significant variables

card management.

It would appear that educators and those in helping professions should place a high priority on teaching skills related to credit card management; of particular importance are cautions related to the number of credit cards used by household members, awareness of the percentage rate of interest, and the skill of estimating the cost of credit card finance charges when the balance is not paid in full. The study implied that audiences likely to be in greatest need of credit card management skills are younger persons with a high level of education who reside in households of two or more persons. Persons with a lower level of education and from smaller households may need an increased understanding of the fact that abstinence from credit card use is not necessarily synonymous with effective money management.

Even though the study in its pilot stage as reported involved a small sample, it is representative of a total population as opposed to a sub-population. Furthermore, money management practices represented only a small portion of the data collected in the pilot study. Data relevant to the money manager's knowledge of money management, and attitude related to money, were also collected and are in the process of being analyzed as predictors of household solvency status. Results of the pilot project are indicating benefit in repeating the study with a larger sample.

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PRODUCT QUALITY: WHO DECIDES IT?

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Before I begin, I would like to read a short note to Stuart Lee.

"I wish it had been possible for me to be with you today for this very special occasion, to personally participate in the presentation of the award recognizing your 25 years as Editor of the ACCI Newsletter. That's an impressive record! Your untiring efforts have resulted in insightful and invaluable coverage for consumer-related activities and publications. We at Consumers Union are also most grateful for the attention that's been given to our work, over the years, in the newsletter's listing of consumer resource materials.

Please accept my personal congratulations, as well as those of the entire staff at Consumers Union."

Rhoda H. Karpatkin
Executive Director

When Colien Hefferan contacted me last fall about participating in this year's Annual Conference, I was uncertain about my ability to attend. At that time CU was preparing to negotiate a new Collective Bargaining Agreement with its unionized employees and I was on the negotiating team, often spending many hours a week in meetings. I told her that this activity might stop me from coming, but if I was able to attend, my only request was I not have to have my remarks refereed by an ACCI committee. She agreed. Fortunately, a new contract was signed last week. Consequently, I lost my excuse and here I stand. I can remember vividly the first speech I ever delivered to ACCI. It was in 1972, in Chicago, where I demonstrated various technical and safety aspects of product hazards. I was teaching at CMU at the time, and after Jean Bowers consented to let me, an electrical engineer whom she had never seen before, on the program, I went to my department head to seek travel funds for the trip. I can remember his asking "What does ACCI stand for?" I gave him a brochure and explained the purpose for my seeking to be on the program. He agreed to fund the trip and as I left his office, he asked in a most serious tone, "But David, what about your future?"

That shows how much he knew. I believed then -- and continue to believe -- that the combination of technology and economics can be a powerful force to improve the consumer's position in the marketplace.

In thinking about Colien's suggestion

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today's topic, "Product Quality: Who Decides It?", I have decided to cover two related areas: 1) What influences product quality and 2) how do we at CU know it when we see it.

To begin with, we should keep in mind that the manufacturer generally does the actual deciding of when and how a product's quality is altered and hopefully improved. The real question, then, is "What forces are influential in affecting such a decision?"

For me, "quality" is not very precise term. Standing alone it refers to the degree of excellence or grade with respect to some attribute of a product. I personally need a little fuller description, like "high quality" or "low quality", before I get even a hint of a meaning.

But more importantly, we inevitably come up against a basic question: High or low quality -- Compared to What? As you are well aware, there are standards of excellence or performance by the thousands throughout productland that help take some of the uncertainty out of the marketplace. Some deal with screw size, thread size, pipe size, how much is a pound anyway, while others are more performance oriented, like the conditions under which a smoke detector will sound that alarm or how much radiation can leak out of a microwave oven before it ceases to be "safe enough". In short, there are numerous yardsticks by which we can measure various dimensions of a product.

Again, what about this thing called quality? A chain saw that tears through a log in a few seconds -- high or low quality? A TV picture with brilliant, intense color -- high or low quality? Macaroni and cheese with lots of rich, cheesy sauce -- high or low quality?

I have recently come to the conclusion that not only is the word "quality" incomplete standing alone, but the value judgment based on various measures of a product's attributes is incomplete without the consumer's preferences in the loop. It is folly to ascribe quality to a product without including how well the product fits the needs of the intended user, either in an absolute sense or in a statistically-based aggregate sense. Once we have established how well the product fits the needs and wants of its intended user, then we can measure quality -- I think. We still need to deal with what is high and what is low. More about that later.

By the way, for this discussion I am talking only about quality of design and not quality of production. The latter deals with sample to sample variations due to complex manufacturing processes, shipping and storage systems,

packaging, etc. -- all the things that can and do go wrong after the product designer's dream becomes a reality back at the plant. Controlling the quality of production and distribution is a topic for another day.

Finally, we get to the topic at hand: what influences the goal of the product designer? Obviously, the marketing department has a tremendous impact. If they believe they know what will sell and compete successfully, they have the lion's share of influence. But there are other forces that cause changes in what is available to the consumer, forces separate from sales figures.

It should come as no surprise when I say that I believe strongly that the safety of a product is an important aspect of its overall quality. Not everybody agrees with me on this point, although there is general agreement that safety is not a successful marketing feature.

For example, a chain saw is a quick, efficient way to cut logs when compared with using a hand saw. But it is also extremely dangerous and some consumers -- too many consumers -- have had terrible experiences with them. The problem for years has been that some part of the consumer's body comes in contact with the moving chain, complete with cutter blades. This occurs an estimated 99,000 times a year.

Injuries from chainsaw kick back has been particularly menacing and occurs approximately 23,000 times a year. Yet, when CPSC brought this to the attention of the industry several years ago, there was great resistance to addressing this problem. The industry's trade association claimed it was not as big a problem as the government was claiming it to be. Thus, injury data alone did not seem to produce much change in this product's quality.

Product liability litigation also had little impact on chain saw designs. Indeed, one major manufacturer I visited boasted to me that he had never lost a lawsuit because he successfully argued that the consumer had failed to attach a removable nose guard prior to the time of the accident. Similarly, consumer demand did not create pressure for an improvement in this area, in part because consumers never plan or foresee that their saw might hit them in the face or neck. It is a total surprise each time it happens -- and those consumers are not return customers so the feedback loop is not closed.

Instead, the steady pressure of CPSC's development of a federal regulation ultimately brought about an important breakthrough -- the low kickback energy safety chain. To their credit, the industry has agreed to include a requirement for these chains in their own voluntary standard. Most, if not all, chainsaws being shipped today have such chains included. They are also available as replacement chains in the after-market. I urge you to seek them out as replacements before you

next use your own chain saw.

Unfortunately, a similar story can be retold for such products as lawn mowers, baby cribs, mattress flammability, flammable sleepwear, patio and storm doors, bicycles, poison prevention for children and electrocution from CB antennas: little or no articulated consumer demand for improved safety, too little pressure felt from lawsuits, a strong belief by one or more dominant members of the industry that the injuries and deaths were more the fault of carelessness consumers and not of the product design. Ultimately, the influence that improved each product's quality was a federal regulatory agency carrying out a congressional mandate that consumers should not be subjected to unreasonable risks of injury.

Moving on to another major influence, advances in technology have generated substantial improvements in product quality. They are almost too numerous to mention. As they occur, however, successful companies will incorporate them as soon as possible. For example, when transistors became a viable alternative to the vacuum tube, and miniaturized printed circuitry replaced wires, and integrated circuits combined it all into the size of a pea, whole new worlds of product variety and quality improvement fell into our laps. When I remember how balky, noisy, mechanical calculators, costing hundreds of dollars, have been replaced by solar-powered calculators for less than \$10 that fit into your shirt pocket, I mentally salivate to see what is coming next.

Of course, not all improvements are improvements. My daughter's Boom Box (a radio/tape player that can really "crank the tunes") is no improvement as far as I am concerned, although I am impressed that so much hi-fidelity power can be delivered by so small a system. On the other hand, I am equally impressed by her walk-about tape player technically, but not so with its use around mixed company. When she wears it, she disappears into another world right before my eyes. One radio steals everybody's hearing space, the other steals her as company. It could be that not every improvement in the quality of a product results in an improvement in the quality of life. (What's a father to do?)

In a real sense, not all claims of improved quality are accurate. Too often, CU receives samples from around the country of the same product in different packaging, with different claims of quality or newness -- but no observable or testable difference.

Consumer demand is, of course, the greatest single factor since it establishes the very existence of the market in the first place. Successfully meeting consumer demand depends in part on knowing what they want -- or will accept. A striking example of a sleeping giant has been the proliferation of new caffeine-free soft drinks in the last two or three years.

Factors that made it happen, in what I perceive to be order of importance, were: (a) consumer demand and (b) the threat of government regulation.

Consumer demand was evident in the widespread press and public attention to caffeine's use as an additive in soft drinks. It was a subject the public was clearly concerned about, and some "public-interest" organizations were lobbying FDA to ban the use of caffeine. The industry was sensitive to this public concern and quick to perceive that a market existed for caffeine-free products. There was resistance to change the formulas of already successful products, but the threat of regulatory action probably helped some companies decide to experiment with caffeine-free formulas, just in case.

Once a couple of companies test-marketed caffeine-free colas successfully (and 7UP ran a very effective ad campaign that stressed the absence of caffeine from its product), the race was on to compete for caffeine-conscious consumers' soft-drink dollars. This is clearly a focused consumer demand that changed the market, presumably offering an improved product.

Sometimes rather strange external factors influence product quality. Back in 1973, just before the energy crunch, CU tested room air conditioners and measured a parameter later known as Energy Efficiency Ratio (EER). All but one ranged between 5.8 and 6.2, the one being a GE model with an EER of 8.8. (It thus would use about 1/4 less electricity.) Although it cost somewhat more, CU recommended it because of its efficiency. For the next 3 years, whenever we tested air conditioners, we still recommended that same GE air conditioner.

GE, to our surprise, stopped making the more efficient air conditioner because, as we learned later, consumers did not buy enough of them. In spite of CU's recommendation and the model's improved efficiency, consumers were not willing to pay the higher price. But when the energy crunch came and electricity costs skyrocketed, consumers became much more concerned about EER. Today, most air conditioners have an EER at least as high as that GE pioneer.

The last influence I'll mention is the product report in Consumer Reports. It is difficult to document, but most manufacturers and private labellers read our magazine and consciously decide whether they agree or disagree with our findings. The mail we receive will attest to that. Just how much actual product change that occurs as a result of our opinion is difficult to gauge exactly. I believe it varies considerably with the type of product - but it does occur and generally to the consumer's benefit.

I will conclude my remarks by sharing with you my current thinking regarding the quality of our product and how well it meets the demands of our consumers. As you know I have been at

CU all of 18 months. Being new has given me and CU the opportunity to take a fresh look at some very persistent issues. Is it a good magazine? I must ask -- Compared to What? It is the only magazine that conducts comparative tests and publishes the results.

Stuart Lee kindly sent me a copy of Beryls' Law recently.

It says: "The Consumer Report on the item will come out a week after you've made your purchase."

Corollaries:

1. The one you bought will be rated "Not Acceptable"
2. The one you almost bought will be rated "Best Buy"

I must say, Mr. Beryl was very insightful.

Actually, I have had that experience myself. For me, however, that runs a close second to Pittle's Postulate: the products at the top of the list are sold out before I get to the store. This is due, in part, to the manufacturer changing product lines each year to "upgrade quality" (if I may use quotes) and partly due to the time it takes CU to purchase and test products and write and publish the results in an article -- all of which may take 6 to 8 months from beginning to end. Also, sometimes our report may spur a run on high-rated models.

We are implementing several changes in an effort to make our information more timely and useful, but in the process I have found myself asking what every publisher should ask, "Does our product serve our subscribers' needs? After the tests are completed, how should we summarize all the data to end up with a useful and relevant product rating chart?"

To begin with, the process of creating a rating chart necessitates assigning weights to individual attributes to come up with an index of "overall quality". It is, in my opinion, much more an art than a science. There is no hard-and-fast rule, no single approach that can be applied to all cases. In general, it requires a process of judgment about which of the factors that we have measured are most important, for a class of products at a particular time. The judgments we make must be sensitive to several concerns, such as how we expect consumers to use the products; the current nature of the market for the product, and any trends or changes in what is being sold or how it's being sold to consumers; and "external" concerns, such as public attitudes toward safety issues raised by the product, pending regulatory decisions, and so forth.

The fundamental consideration is the soundness and appropriateness of using our test data for comparative ratings. There may be an important product attribute that, logically, would be a major factor in the Ratings, but which no test method can reliably assess. Or, all the brands and models tested may perform almost equally on an important test, so that ratings based heavily

on that factor would show little difference among the models tested. When such a situation occurs, we must explore alternative ways of devising a ratings scheme.

To show you how diverse the approaches to ratings schemes are at CU, let me give you some examples:

(1) Dishwashers, fairly straightforward appliance products, were rated primarily on overall washing ability (based on statistical analysis of a complicated series of tests). Within groups of similar washing ability, models were ranked according to energy efficiency and convenience factors.

(2) Stuffing Mixes, like most foods, were rated on their sensory quality. Although our sensory evaluations measured the intensity of nearly a dozen attributes, only one ("overall herb and spice level") was judged suitable for use as the major ratings attribute. Most of the others showed only slight variation among brands tested.

(3) Chain Saws were rated heavily on safety; all brands were rated "Conditionally Acceptable," contingent on their being fitted with a low-kickback-energy chain. Within that category, saws were rated on the basis of kickback energy with the safety chain, cutting performance, handling and comfort -- more than 10 factors in all.

In addition to the intrinsic importance of the safety issue, our judgment in this case was mindful of the state of the market. Some chain saws came equipped with the new, safer chains at the time of our report, and some did not. By making the safety feature the central focus of our report, we hoped to influence the rate of adoption of the safer design by the rest of the industry.

(4) Video Cassette Recorders were rated on features, rather than on picture quality. Our tests found no consistent differences in picture quality among the models tested that we could attribute to brand/model factors. I would note in passing that we encounter uniform, generally high, quality on major performance attributes in quite a few products, especially in electronics. While this is good news for the consumer, it poses an interesting challenge to us, since our goal is to draw distinctions among brands for ratings purposes.

(5) Home Computers were listed, not rated. Recognizing the great complexity of tasks a computer can be used for and the diversity of consumers' needs, we chose not to arbitrarily define what computers should do, but rather to report on what each of the models we tested can do well. We presented that information with recommendations for what to choose for each use a consumer might have in mind.

These examples suggest, I hope, the great variety of tasks encompassed by the phrase "devising a ratings scheme." At CU, at least,

the process is a multifaceted one that again calls upon the many skills of our organization.

As complicated as it is, however, the weighting process generally does not include one of the most important factors consumers are eager to know about: The reliability or durability of products. The many reasons why we can seldom test effectively for reliability or durability would be worthy of a symposium in their own right. But, as I said earlier, we can't always include everything we might like to in a Ratings scheme.

Regardless of what goes into the ratings scheme and what weights are assigned to individual factors, how that information is presented to consumers has a important bearing on how useful it can be. A basic precept for publishing the kind of information we produce is to know our audience, and to sense how they will be using the data. We believe our readers fall out on a spectrum between two extremes: At one end are the totally dependent readers. They want Consumer Reports to tell them what to buy; they pay us to make judgments for them. Sometimes they don't even read the story, but turn immediately to the Ratings and try to buy only the item at the top of the list. At the other extreme are the totally independent readers. They don't care what CU thinks; they pay us to provide hard information they can use to make up their minds. They may ignore our ratings, and assign their own weights to factors they deem important. For these readers, the text of our report, the sections describing what we tested for and what we found, and specific performance data on individual brands are what they need and want most from us.

Our readers reside at many points in between these two extremes, and of course the number of each type varies with the product tested. For instance, when buying a car, most people are fairly certain of what they want and need, and are perfectly able to assign their own weights and make their own choices. But with many less familiar products, most people will need and rely on CU's judgment to a greater degree.

How do we meet this wide range of needs? We begin by presenting the information, including our ratings and recommendations, in a flexible way -- suited to the product, and useful to all types of readers. There are several elements to be considered:

(1) We explain our rationale, both in the text of the story and in the curve that is atop the ratings chart. While we do not explicitly reveal the precise weighting formulas used to calculate the ratings order, we generally make it pretty clear which factors we think are important. By making those judgmental factors explicit, we give readers the freedom to disagree, and to assign different weights if they choose to.

(2) We publish a lot of information. A typical ratings chart in Consumer Reports today has

several columns of test results -- sometimes a dozen or more. That is, we don't simply rate products in order of overall quality; we also tell readers how well they performed on many of the important tests that went into the ratings. The independent-minded consumers can use this data to reach judgments based on their own weightings.

(3) We make flexible recommendations. We say what is important to us, and recommend the "best" products by those criteria. But when it's obvious that people may have different priorities, we often offer alternative suggestions for consumers who value some attributes more than others. For instance, when we rated microwave ovens, we found they all performed cooking chores about equally well, so ratings were based on features that enhanced the ease or convenience of using the ovens. But we made some alternative recommendations for consumers who cared less about convenience features -- some models that cooked perfectly well, and cost a lot less.

(4) We present information that was not weighted in the ratings, if that data may be important to consumers. For example, in Foods reports, our ratings table usually includes information on sodium content and calories per serving. That data is not used in the ratings, since not all consumers need to restrict sodium intake or are concerned about counting calories. But for those who do wish to pick foods for low sodium or calorie content, we provide the information.

(5) Finally, we tailor the presentation to the product. For example, we present far more complicated information on computers and cars than on simple hand tools or most foods or household products.

A couple of years ago, we had an interesting experience that taught us a good deal about why people need and rely on Consumer Reports. An enterprising computer software company contacted us to try to gain our cooperation in what they thought was a marvelous idea: They had developed a program that would allow consumers to use CU's test data, and assign their own weights to the various performance factors to produce their own personal rankings. The developers of the program brought it to CU to demonstrate their idea to our staff and others. Several of our broadly experienced people (none of them experts in electronics) tried out a program that would let them rank video cassette recorders under such a scheme. And they couldn't do it! Confronted with an array of more than a dozen features and performance attributes that CU had tested, they simply had no basis to make judgments about weighting the individual quality factors. They threw up their hands in despair.

Quite seriously, we believe that a substantial part of what consumers pay us to do for them is to offer judgments about those aspects of product quality that consumers don't have the

resources to judge for themselves. While this certainly varies from one product to the next, we believe most of our readers cannot devise their weightings for many of the products we test. Those who can are free to do so, because of the way we present our findings. But most people can't, and won't and trust us to do it for them. If that's a realistic view of our job -- and I think it is -- the likelihood that we fill the needs of our readers is high.

Well, Colien, I hope I did justice to the topic you suggested. How do you think I did?

What do you mean "COMPARED TO WHAT?"

Thank you for your attention.

UNISEX INSURANCE AND THE CONSUMER

K. Edwin Graham, American Council of Life Insurance¹
 Charlene Cochran, Life Insurance Company of Georgia²
 John K. Booth, American Council of Life Insurance³

ABSTRACT

Consumers will face drastic changes in the availability and cost of life insurance, health insurance and annuity products if gender-based tables are eliminated in determining risks. Two professional actuaries discuss the history of risk classification in insurance, the current proposals for change, the impact of unisex tables on the consumer, and the need for consumer education.

THE USE OF GENDER IN PRICING INSURANCE PRODUCTS
 Charlene Cochran

These comments will be somewhat more slanted to life insurance than to other lines, as I work most closely with it. For the most part I plan to talk about what the experience has shown us by sex and how those patterns shape the insurance premiums. Then we'll turn our attention to pressures that are challenging the use of gender.

Finally, we'll see what uni-sex premiums could mean to all of us, should they become a reality. Before we start with the effect of sex in premium pricing, let's drop back a moment to general insurance pricing, some of which will be very basic to many of you.

A premium must cover the risk it insures against. It can't be too large -- competition makes sure of that. It can't be too small -- companies soon couldn't pay claims. It can't be an unfair price to the person buying it -- it wouldn't represent his or her actual risk.

Pricing insurance is like putting a price tag on uncertainty. Will a claim even occur? When will it occur? In medical and auto, how much will the claim be?

The best predictor is past experience of similar claims. For decades, claims statistics have been analyzed for trend in probably every way possible. Age, sex, health, occupation, driving record, geographic cost area, and on and on all go into the high sounding term "insurance risk classification."

Statistically, there now seems to be little dispute that females live longer than males.

¹Director, External Relations Projects

²Assistant Vice President and Associate Actuary

³Vice President and Chief Actuary

TABLE 1. Life Expectancy.

Year of Birth	Years More For Females
1920	+ 1.2
1950	+ 5.7
1980	+ 7.9

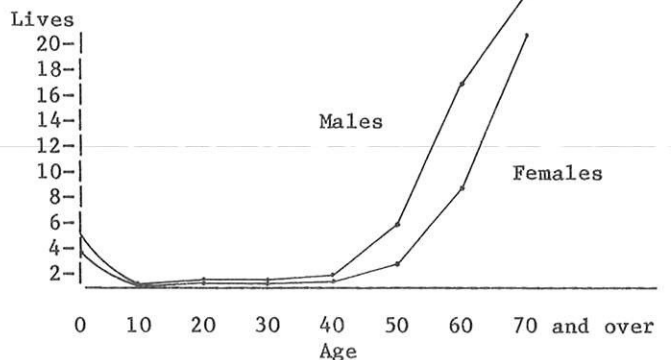
The difference in life span has been changing over the years, as seen in this table of life expectancy. It shows the probable extra years a female will live, according to year of birth beginning with 1920.

Before 1920, because of high maternal deaths, premium rates were higher for women. Then, improving hygiene and sanitation led to improvements, as seen here. The experience of the 20's did not translate to lower premiums for women, however. It was argued that women bought fewer and smaller policies and the higher expense per unit offset the mortality savings.

By 1950, the difference had increased to 5.7 years. About this time, some companies began to charge lower rates. They rationalized that more women were beginning to work and would buy more coverage. But more importantly, women should be entitled to the lower premiums.

The 1980 figure shows that the difference has continued to increase and will probably continue. This look back shows how the distinction between males and females evolved over the years. It didn't happen overnight.

TABLE 2. Death Rates Per 1,000.



The almost 8 year mortality difference as of 1980 is reflected in today's current death rates by

age. In this graph you'll see that at all ages, the death rate is higher for males than females. The noticeably higher mortality at birth affects both sexes, but males to a greater degree. Even before birth, males have 20% higher mortality, before socioeconomic factors could be an influence.

If females have lower death rates, life insurance can cost less. That's for two reasons: the company can collect premiums longer and can invest premiums longer.

TABLE 3. Life Insurance Premiums.

\$25,000 Whole Life (Annual)			
Age	M	F	F difference
15	\$ 200	\$ 175	\$ - 25
30	300	270	- 30
45	600	520	- 80
60	1240	1060	-180

To illustrate how the differences by age affect premiums, here's a table showing annual premium differences. At all ages premiums for women are less -- at juvenile ages, males rates would also be generally higher. This plan happened not to be sold at juvenile ages.

While the longer female life span is on our minds, let's consider annuities, where longevity is viewed from an entirely different vantage point. Actually, longevity has to be assumed more conservatively for annuities than life insurance to cover the "self-selection." If as a group females live longer than men, mathematically the premium rates to buy a lifetime annuity will have to be higher to cover the longer payments.

TABLE 4. Annuity at Age 65.

Annuity Amount if Premiums \$10,000			Premiums for Female Annuity of \$108		
M	F	F difference	M	F	F difference
\$108	99	- 9	\$10,000	10,890	+ 890

This example shows how an annuity would compare for a female. It makes the comparison in two different ways; first, on the left side, if equal premiums are paid by a man and a woman, the premium will buy a \$9.00 lower monthly income payment for a female. On the right side, if the female wants to receive a monthly income of \$108.00 rather than \$99, she'd have to pay approximately \$900.00 more in premiums.

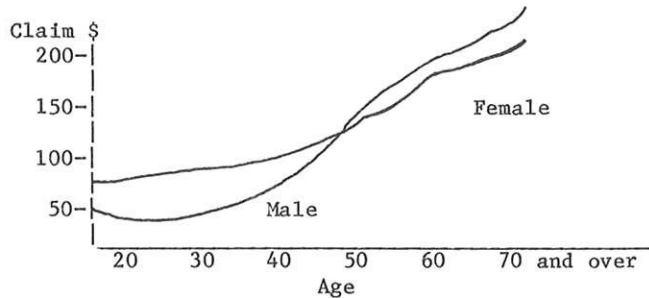
This difference occurs because of multiplying different settlement rates for men and women, based on the extra years of female life expectancy. It's this type of difference which catapulted the uni-sex issue to the forefront in the now landmark Norris case that you'll hear more about. In that

case, a woman received a monthly retirement income that was \$34.00 less than a man would receive, but contributed the same premium. She got unequal benefits for the same premium. This case involved a group-type plan through her employer.

Any employer plans affected by the Norris case have since been brought into compliance. Most true group plans are already based on averaged rates. The distribution of age and sex is used to get a composite rate and it's the employer who pays it.

Let's turn now to a different form of insurance, hospital and medical care. Basically, medical claims for women are higher than men except at highest ages. We tend to visit the doctor more. Even excluding maternity, there are differences in claims patterns for men and women.

TABLE 5. Medical Claim Costs.



This graph shows what we call expected claim costs. These numbers are just examples to show the general pattern and the noticeable contrast to death rates, where female rates were always more favorable. This illustrates a major medical policy with usual co-insurance, deductible, and high lifetime maximum. Maternity claims are excluded. You'll note that the female claims start higher and stay higher until the later ages. Higher claims for men at higher ages are beginning to reflect the more serious illnesses associated with higher deaths.

TABLE 6. Comprehensive Medical Premiums (Annual).

Age	M	F	F difference
20	\$ 420	\$ 630	\$ +210
30	490	740	+250
40	660	950	+290
50	1000	1150	+150
60	1600	1430	-170

As females generally have higher medical claims than males, the premiums are higher, as shown in this example.

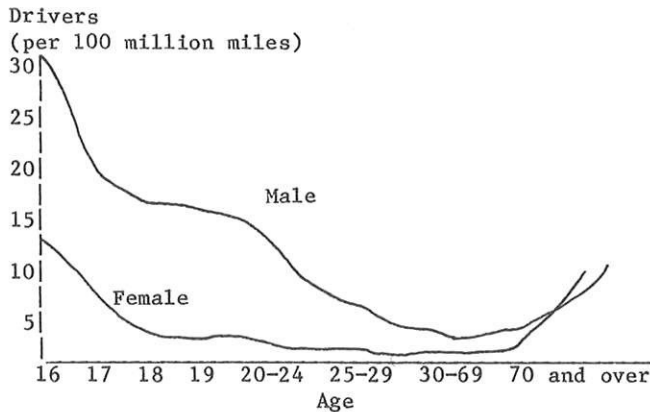
As age increases, note how female rates are consistently higher. The difference slows down at later ages and female rates actually become less eventually.

The effect of the biological durability of the body clearly shows up in the personal insurance forms that we've been looking at. But what about the use of gender in a non-personal form like automobile insurance?

There does seem to be a link between gender and the probability of car accidents.

But many argue that accident rates for males are higher because males drive more and take longer trips. However, given the same number of miles driven, experience shows that women have fewer accidents.

TABLE 7. Fatal Auto Accidents.



This chart shows that drivers in fatal car accidents are more likely to be male. The differences by sex are particularly acute in the teenage years and diminish at adult ages. Results are a per-mile driven basis, which eliminates length of trip as an influence. This pattern shows why teenage drivers require a substantially higher premium, boys more so than girls. I'll feel the pinch in another year as our son reaches 16!

TABLE 8. Auto Insurance Premiums (Annual).

Age	Single		
	M	F	F difference
16-24	\$500	\$330	\$170
25-29	375	225	150
30 and over	225	225	--

This chart illustrates an auto insurance policy with typical deductible and coverage limits for a single person: within the 16-24 age group rates are much more than older ages. Also, see the difference between young male and female drivers -- about \$170.00. In this example, males 25-29 continue to pay significantly more than females the same age, \$150.

There are several other points not reflected on the chart, that favor females: women 30-64 get an additional 10% discount if they're the sole drivers of their cars, but men don't. Both men and

women get a 5% discount at age 65 or over, because experience is very similar.

All these examples show how and why gender has become important in the insurance pricing system.

Because of social issues to eliminate any distinctions because of sex, insurers are now being pressured to stop using gender. Supporters of uni-sex allege that as more women enter industry and trade, more favorable female experience will diminish as women are exposed to the same kinds of stresses. But there's no evidence. They also draw an analogy to race and argue that race has been discontinued as a rating factor and sex can be too.

However, race is not an independent indicator of insurance losses. Environmental and health factors historically associated with race were the root rating factors.

Insurers are also being pressured to find a "substitute" rating factor for sex. But insurers are always looking for new factors to make pricing better. The current pressure doesn't lead to anything new. As an example, non-smoker discounts have been suggested as a sex rating substitute. But these discounts are already a separate factor that the industry began using 10-15 years ago. Both men and women can have them.

Those who would do away with gender would do away with traditional pricing. They must understand why the risk precision has been so important through the years. It has protected against insurance company insolvencies. In the fledgling years, wholesale bankruptcies of insurance companies were caused by overly optimistic assumptions. Insurance companies were called on the carpet to guarantee that rates would always stand up. Guarantees can be for 100 years on a life policy!

To be reliable, the premium must fit the risk. You can't make it "fit" by using wide aggregates, and hoping that too much premium here will balance out not enough there. Regardless of whether sex continues to be used, the simple fact will remain: the claim cost differences by sex speak for themselves. The risk is different by sex. Whether to use it has become a social issue.

If gender differences have to be discontinued, there would be disruptions. The extent would depend upon whether both old as well as new policies are affected. Cost shifting between various groups would result as best rates are sought. Male and female rates would have to be blended through a weighting process to reach a long term reliable uni-sex rate. Changing distributions of sales and lapses by sex will complicate getting the actual mix correct.

Life insurance rates would definitely increase for women.

An analysis of "before and after" rates will be further affected by unmeasured cost shifting and market disruptions. However, for illustration

here's an extension of the life insurance example we saw for a \$825.00 policy.

TABLE 9. Change in Life Insurance Premiums After Uni-Sex.

Age	Before		Uni-Sex Premium	% Change	
	M	F		M	F
35	\$450	\$400	\$435	-3%	+ 8%
45	600	520	575	-4%	+10%

You'll see that the uni-sex rates lie somewhere above the halfway point between the sex distinct rates. Premiums for males decrease in the order of 3%-4%, females increase about 10%. Females increase more than males decrease because fewer women are covered. The same total premium dollars have to be maintained and the uni-sex rate equation balances much closer to the male rate.

Cash values and dividend comparisons between men and women depend on how they're calculated. Methods vary by company. Sometimes they're less for females because they're based on an age setback of male values. For example, if a 3 year setback, a woman 32 has the same cash values and dividends as a male 32 (her premiums are same as male 32 not 35, thus lower).

In those cases, cash values and dividends would increase for females after uni-sex. All values would be based on age 35.

Although I have no examples to show you, annuity costs for males could rise as there would be apprehension to lower female payout assumptions in view of known experience. Car insurance rates would increase substantially for women. Medical premiums would increase considerably for single males and females.

Premiums would include necessary pricing for maternity benefits. The increase for them could be 1-1/2 times the pre uni-sex rate, or \$450.00 more a year.

I do have some grand total estimates given as testimony on this issue. For all women, \$360 million more for life insurance, \$37 million for all medical and disability forms, and \$700 million for auto. These estimates are argued to be too low or too high depending upon your side of the issue. If separate rates go, availability of products may be cut back as companies re-examine their market position and the outlook for their products.

If gender has to be discontinued, traditional insurance pricing systems will be shaken. Useful knowledge will have to be ignored. More averaging occurs. Where would the line be drawn?

If gender can't be used, what about age? What about health? The ultimate rating system could be none -- a flat rate for everybody.

In conclusion, as I reflect back over price setting, I believe insurance companies have taken

great pride in how fair the rate making process has been. It's ironic that the process is now causing criticism to be heaped upon them.

Ultimately, social pressures may prevail on the uni-sex rating issue. Now, in the climate of the 1980's, maybe that has to be. Insurance is one of the last outposts in society where gender is still a criterion. West Point has coeds. Men's clubs have women. Sports have great female athletes. I don't believe the uni-sex pricing issue is going away.

UNISEX INSURANCE: A CONTEST OF PRINCIPLES
John K. Booth

In considering the contest of principles that make unisex insurance a debatable issue, it is helpful to separate life and health insurance that is purchased by employers to provide employee benefits from that which is purchased by individuals on their own behalf. Insurance that is part of an employee benefit plan is affected by Title VII of the Civil Rights Act of 1964 which prohibits differences on the basis of sex in the terms, conditions or privileges of employment. For nearly a decade after the enactment of Title VII, the Act was interpreted by the Wage and Hour Administrator within the U.S. Department of Labor to require either equal contributions or equal benefits under employee retirement plans. This recognized that it cost more to provide a pension to a woman because of women's greater longevity.

However, the insurance principle of providing equitable treatment to retired employees by basing their periodic pension benefits on actual costs was of little comfort to those retired women under some pension plans who received monthly benefits that were lower than those received by their male counterparts. Although this was actuarially fair, another criterion for fairness was the Civil Rights principle that the two sexes should be treated equally by eliminating socially suspect variables from the calculation of their monthly benefits. In 1972, the U.S. Equal Employment Opportunity Commission followed the latter principle and adopted a rule that would require equal periodic pension benefits regardless of sex. A similar rule was proposed, but never adopted by the U.S. Department of Labor's Office of Federal Contract Compliance. While the U.S. Government agencies remained divided on how sex should affect the determination of employee benefits, employee benefit plan practices were being challenged in the courts under Title VII of the Civil Rights Act.

In 1978, the Supreme Court ruled in Los Angeles Water and Power vs. Manhart that employees could not be required to make unequal pension plan contributions on the basis of sex (although actuarially justified) to provide equal monthly pension benefits. Unfortunately, this decision did not resolve many of the other major employee benefit plan issues. Under the atypical plan in this particular case, the primary issue was that the operation of the plan resulted in women having lower

take-home pay, and hence, lower wages than men. The court noted that its decision wasn't intended to revolutionize the pension and insurance industries. Moreover, it observed that it would not be unlawful to set aside equal contributions for men and women and to allow them as retirees to purchase the largest available monthly pension benefit in the open market. Since practically all annuities in the open market are priced on a sex-distinct basis, this part of the Court's decision lent support to those who believed that employers could provide benefits that differed between men and women as long as their costs were equal without violating Title VII.

In 1983, the U.S. Supreme Court ruled again on the subject of sex-distinct employee benefits in the case of Arizona Governing Committee for Tax Deferred Annuity and Deferred Compensation Plans vs. Norris. In a 5 to 4 decision, the Court determined that future periodic pension benefits purchased with contributions received after August 1, 1983, must not differ because of the sex of the annuitant or beneficiary. Since this case involved an arrangement under which an employer made available to each employee a choice to purchase or not to purchase annuities from among several private insurance companies, it appeared to be quite sweeping in its application to insurance used to provide employee benefits that are covered under Title VII. At the same time, in granting relief, the Court recognized that there could be considerable danger to the solvency of pension funds if its decision were made applicable to benefits derived from past contributions to pension plans. Therefore, it also ruled that for contributions received prior to August 1, 1983, employers and insurers could continue to calculate pension benefits using sex-distinct purchase rates as they had in the past. One interesting result of the litigation was that the Arizona Governing Committee dropped all annuity options from its deferred compensation plan for Arizona State employees. This illustrates the distortion in employee benefit or insurance plan design that may follow in the wake of requirements that benefits be based on criteria other than their actual cost.

Individually purchased insurance that is not related to employee benefits has historically been regulated by the legislatures and insurance departments of the fifty states. In the early 1970s, as women became more active in the labor market, and as a consequence had greater needs for individually purchased insurance coverage, state regulatory authorities received complaints from insurance customers of unequal treatment because of sex in insurance availability and prices. Reacting to these complaints, the National Association of Insurance Commissioners in 1975 adopted a model regulation to prohibit unfair discrimination on the basis of sex in life and health insurance. The NAIC model was quickly adopted in most of the more populous states. Even though it has been adopted in only about twenty states, most insurers, for the sake of uniformity in their marketing and products, are following it throughout the country. The NAIC model regulation prohibits discrimination on the basis of sex in the availability of insurance coverage and benefits but does not

apply to the rates charged. This latter exception recognizes that underlying differences between men and women in mortality and morbidity experience require different rates for men and women if that experience is going to be fairly reflected in insurance prices.

In spite of this state activity, the NAIC model regulation did not satisfy complaints about higher women's premium rates for disability income, health insurance and annuities, particularly among business and professional women, who were self-employed or partners in small businesses, and had to pay these higher rates when they purchased these coverages as individuals. In contrast, most women who worked for large corporations received basic pension, disability and health insurance benefits under formulas which provided equal benefits for men and women with the differences in costs between the sexes absorbed in the contribution made by the employer.

In recent years, there have been increased efforts by proponents of unisex insurance rates to enact legislation to require this in the various states. As a result of these efforts, sex may not be used as a variable for determining automobile insurance rates in Hawaii, Massachusetts, Michigan and North Carolina. In Montana, the legislature enacted a bill to require all insurance issued after October 1, 1985 to be unisex.

At the federal level, there has been a major legislative push during the last two years to enact legislation that would override state laws and require all insurance to be issued on a unisex basis. This legislation has been introduced as H.R.100, The Nondiscrimination in Insurance Act, and S.372, The Fair Insurance Practices Act. Both of these bills are identical and would require benefits, rates and premiums under all employee benefit plans and all individually purchased insurance to be unisex regardless of when contracts were purchased or whether there are any outstanding guarantees. Hearings in early 1983 on this legislation led to a request that the General Accounting Office conduct a study of its effects. The GAO study, which was released on April 6, 1984, indicated that the bills, as introduced, would cost pension plans and insurance companies as much as 30 billion dollars. This would lead to insolvency for a number of insurers including several of the major ones. In recognition of the financial disruption which this legislation could cause, the GAO recommended that if the Congress were to enact unisex insurance legislation, it should be made inapplicable to existing contracts.

As far as future contracts are concerned, the GAO report noted that the legislation would cause significant transfers of money from some people to others. Women would pay more and men would pay less for individual automobile and life insurance, while men would pay more and women would pay less for individual disability income, health insurance and annuities. The GAO further noted that whether the benefits of such legislation are worth the costs is a serious social issue which only Congress can decide.

The week before the GAO study was released, H.R.100, The Nondiscrimination in Insurance Act, was brought before the House Energy and Commerce Committee for mark-up and had been modified by its proponents to eliminate most, but not all, of the liabilities that would result from changing existing insurance contracts. During mark-up, the bill was further amended to exempt all existing insurance contracts and accrued employee benefits. It was also amended to exempt future purchases of insurance contracts that are not part of an employee benefit plan and to provide for the establishment of a balanced seven-member study commission to determine and report back to Congress within one year as to what federal legislation is needed to regulate these contracts.

What is the likelihood that consumers will have unisex insurance in the future? This will depend on the future of unisex insurance legislation because in the absence of a legislative mandate to have unisex rates, competitive pressures force insurers to base their premium rates on the different loss costs for men and women. After the mark-up of H.R.100, some newspapers reported that it was a great victory for the insurance industry. Others may view the mark-up as one more skirmish in a long and difficult battle. Proponents of legislation to require unisex rates in insurance policies believe this is necessary to guarantee human dignity by extending civil rights principles to every area affecting commerce in this nation. Opponents believe such legislation would be the first step in a movement to undermine risk classification principles which are the very foundation upon which the private insurance system is built. With both sides holding strongly to the rightness of their principles, we can probably expect to see a protracted struggle. Life and health insurance products are uniquely related to human lives and this appears to be at the root of the conflict of civil rights and insurance principles.

A UNIVERSITY-INDUSTRY COOPERATIVE VENTURE TO
SURVEY FUNERAL SERVICES AND PRICES

Anita O. Barsness¹, Paul J. Haussman and Gerald M. Becker²
University of Wisconsin-Extension

ABSTRACT

An overview of the applied research project conducted at the Center for Consumer Affairs, University of Wisconsin-Extension in cooperation with the Wisconsin Funeral Directors Association, this paper briefly describes the 1981 and 1983 surveys which were designed to provide consumers with basic price data and other information on various traditional funerals. The joint venture has resulted in the distribution of nearly 10,000 funeral price guides to interested Wisconsin consumers.

THE PROBLEM

A funeral is often the most expensive expenditure, after a home and a car, that a consumer makes. This costly and difficult purchase comes at a time when bereavement and emotional vulnerability may affect normal consumer care and judgement. With little or no previous experience, many consumers lack the means by which to gauge the value of the funeral director's services, making them more susceptible to depending on the seller for standards of how much to spend. Time pressures, social customs, desire to honor the deceased, relatives, friends, and neighbors, further complicate the funeral buyer's decision.

Contributing to an individual's difficulty in making appropriate funeral arrangements has been a lack of information about funeral prices, options, and requirements. This has been partially due to consumer reluctance to be price conscious; few of us go looking for funeral information, it is rare that we will talk funeral prices with our friends, and there is a tendency to want later to forget the funeral transaction including any dissatisfaction with costs. The lack of price information has also been due to the market structure of the funeral industry, which has not been price competitive partially because price advertising has been considered to be "unethical" or "unprofessional."

In terms of supply and demand, this lack of price competition results in an industry characterized by excess capacity and over-supply by small firms. This phenomenon has been characterized as follows: A "...funeral director is a business person who must constantly pay attention to finances. There are currently about 22,000 funeral homes in the United States. Since roughly two million persons die each year, the average

number of deaths per funeral home is fewer than 100 each year (of course some have many more and some even fewer). The economics should be clear. The maintenance of an attractive up-to-date facility, new limousines and hearses, and an adequate staff create high overhead costs that must be recovered on a relatively small number of funerals. The funeral director therefore has a strong economic incentive to sell expensive funerals." [1, p. 9]

The FTC Rule

Recognizing the unique characteristics of the funeral consumer and the industry, the Federal Trade Commission (FTC) began a preliminary investigation of the funeral industry in 1972 to determine whether abuses existed. In 1975, under the new Magnuson-Moss Warranty/Federal Trade Commission Improvement Act, the FTC initiated a rulemaking proceeding. During the fifty-two days of hearings during 1976 held in six cities across the country, over 300 witnesses testified, producing 17,000 pages of transcripts and over 4,000 pages of exhibits. Although the rule requiring price disclosure to provide consumers the information needed to make informed purchasing decisions has met considerable opposition during the years since it was first proposed, there have been several states which have legislated some of the FTC suggested reforms. The funeral industry has also responded by establishing a consumer complaint organization known as THANACAP, for the purpose of resolving funeral disputes, by providing independent panels to analyze unresolved cases and, if warranted, to recommend a fair solution.

Increased Attention

During the past decade, regulatory and industry sponsored attempts at reform have contributed to increased attention given to funeral planning and expenses in the media, in various publications, and through expanded educational efforts. For example, in the forward to a book which represents a public service project of the American Association of Retired Persons/National Retired Teachers Association (AARP/NRTA), with a combined membership of over 13 million, and is a part of a package which includes a slide-tape presentation and program planning materials, Congressman Claude Pepper writes "All of these legislative and regulatory efforts, however, are secondary, in my view, to the best possible solution to any situation of this sort - an informed consumer. Unfortunately, planning a funeral is a subject about which few of us are inclined to seek out much information in advance, especially if we don't know how to go about doing so." [1, p. 6]

1
Author of paper

2
Co-investigators for project, and co-authors of
Wisconsin Funeral Service: A Consumer's Guide

Increased attention given to educational efforts in the classroom is reflected in a full chapter titled "Necroeconomics," or the economics of death, in a text for college students, in which the author states that "Most consumers do not know what is in a typical American funeral and burial package. Even consumers who have 'purchased' the package try to forget its contents and rarely discuss them or their price. To do so is painful because the expenditure is mistakenly taken as a measure of respect for the decedent." [2, pp. 252-3]

In a publication prepared as a news release and available through the Consumer Information Center, Esther Peterson, when she was Special Assistant to the President for Consumer Affairs and Director of the U.S. Office of Consumer Affairs, wrote: "Irrational or not, people are hesitant to learn how to comparison shop, investigate, and plan for funerals, even though they are a major expense. Something just 'doesn't sound right' when we talk about the high cost of dying. And I am convinced that our reluctance to pre-plan our final consumer action many times forces our loved ones to make hasty, emotional, and expensive funeral arrangements that may not be in keeping with our wishes or their ability to pay for services and products." [3]

Educational materials often include some assurance that assuming a consumer role in arranging and purchasing funeral services is acceptable. For example, the AARP/NRTA book includes the following: "An October 1980 survey by the National Retired Teachers Association and the American Association of Retired Persons found that the majority of consumers prefer detailed price information, so you need not feel embarrassed about asking for it." [1, pp. 30-1]

"Thinking of the person who is arranging a funeral as a consumer reflects not a lack of appreciation for the personal or religious aspects of the funeral but rather a realization that any purchase that may cost as much as \$2,000 (or more) is, at least in part, a consumer purchase. This is to say that in order to make secure and appropriate decisions, you need consumer information on options and price differences, just as for any other purchase. And being an informed consumer is your best assurance of getting what you want at the price you want to pay." [1, p. 44]

When prices are referred to, there is a wide variance in general prices given. Whereas the preceding quote suggests a "\$2,000 (or more)" cost, a recent University-Extension publication from New York states "Today, a funeral and burial can be both elaborate and costly; typical costs range from \$3,700 to \$6,800 or more." [4, p. 3]

THE CCA/WFDA PROJECT

The Center for Consumer Affairs at the University of Wisconsin-Extension (CCA) has been involved in funeral related issues and educational efforts for some time. CCA staff prepared and presented written and oral testimony during the FTC hearings in Chicago in 1976. A series of articles were written for the Center's monthly publication Consumers In Action: An Informational Service for Consumers in Wisconsin. To prepare for the FTC testimony, and for informing the public through the articles, surveys of several Milwaukee area funeral homes were conducted beginning in 1975 to determine availability of obtaining price information by telephone, and also to gauge the availability of obtaining price information during personal visits to funeral homes in the area.

Initial Contacts and Agreements

In an effort to provide price and service information on a larger scale, CCA developed a strategy to survey funeral homes from across the state. Experience suggested that response to a mail-in survey instrument from CCA would be light, so contact was made with other state agencies to determine ways to encourage participation by funeral homes. After exploring possible cooperative ventures with state agencies, as well as considering the advantages of securing industry support, the CCA contacted the Wisconsin Funeral Directors Association (WFDA), hoping for a letter of endorsement to accompany the four page "Wisconsin Funeral Homes Survey" instrument, which had been designed for soliciting information from every funeral home in the state.

In April 1981, the CCA staff met with the WFDA executive director and officers for the first of several meetings which ultimately resulted in a joint effort to provide information on funeral services and costs to Wisconsin consumers. Because there have been educational and legislative implications beyond the publication of a booklet for consumers, the process for developing a working relationship between a state funeral industry's largest trade association and a University-Extension agency as well as some of the advantages for pursuing such a cooperative venture merit further discussion.

The initial meeting between CCA and WFDA did not result in a blanket endorsement by WFDA of the intended survey. It took a series of meetings for trust to be established to the extent that a jointly published consumer guide based on state-wide price and service surveys could be envisioned. Objectives for the Wisconsin funeral service project were to:

1. familiarize consumers with the traditional types of funeral services and costs in Wisconsin;
2. explain legal requirements, and some alternative choices and

- considerations when arranging for a funeral;
3. obtain information on expenses and costs from as many Wisconsin funeral homes as possible;
 4. provide price information so that consumers can comparison shop to determine whether particular funeral homes are price competitive;
 5. enable consumers to negotiate desired services and prices by an understanding of methods of pricing used and an availability of price ranges for particular goods and services;
 6. encourage pre-planning by consumers for themselves or a dependent; and
 7. stress the difference between pre-planning and pre-purchasing.

During the nine months between the initial meeting of CCA and WFDA representatives and the booklet, the survey instrument was re-designed and administered, the data was collected and compiled, and through numerous meetings and extensive correspondence the necessary compromises and concessions involved in the preparation of the booklet were made.

One of the first items agreed upon by both parties was the understanding that either could end the project at any time. Also, the final draft of the booklet was subject to approval by the WFDA board and the director and staff of CCA before any copy went to press. Either the association or the center could have prohibited its publication.

Survey Methodology and Booklet Design

Not all funeral homes in Wisconsin are WFDA members; therefore the Wisconsin Department of Regulation and Licensing was contacted for an all-inclusive list of the 591 funeral homes in Wisconsin in 1981. Each home was mailed a cover letter, survey instrument, and name-address slip, the latter was a separate sheet to allow it to be separated from the survey instrument upon their return. This assured the respondent's anonymity. The completed surveys were opened in the presence of both CCA and WFDA representatives and separated from the name-address slips before being turned over to CCA for tabulation.

Although CCA had initially preferred to have price information given for individual funeral homes, WFDA promoted that having a range of prices would be more practical. It was conceded that a greater number of homes would provide price information if anonymity was assured, and it was agreed to acknowledge participating homes by providing a separate listing of homes responding at the end of the booklet. This meant also that the booklet would not be outdated as quickly if one or several homes changed their prices shortly after completing the survey.

Since funeral costs and services vary in different areas of the state, a separate booklet was prepared for each of eleven regions, as determined by WFDA district divisions. The textual content of each book was identical, while the price information obtained from the listed participating homes was unique for each district.

The textual content was developed through a series of writings, revisions, field testing and rewriting efforts. As it was necessary for CCA and WFDA to reach agreement on material to be included and approach taken in writing on topics about which there were differences of opinion, the writing effort in some cases involved word-by-word discussions. One example of an area for which compromise was necessary involved the emphasis on traditional funeral services; it was conceded by CCA that as the large majority of funerals in Wisconsin are traditional and few crematoriums exist, that direct disposition would be explained as a choice, but that price information would be given for only more traditional types of funerals.

Another compromise was reached for WFDA to agree to encourage pre-planning while not recommending actual pre-purchase of funeral services and/or merchandise except in certain specified situations.

The fifteen-page booklet Wisconsin Funeral Service: A Consumer's Guide, was completed in January 1982. Titles of sections included were: Introduction, Something to Consider When Death Occurs, Alternative Choices When Arranging for a Funeral, Reasons for Choosing a Particular Alternative, Requirements Under Wisconsin Law Where a Death Occurs, Items Not Required by Wisconsin Law, Possible Expenses and Costs; Methods of Pricing, Requirements Under Wisconsin's Service Practice Law, Extension of Credit, Pre-Planning, Pre-Financing, Additional Information, and Acknowledgements.

Dissemination

During January-February 1982, the WFDA president visited each of the eleven districts to meet with local funeral directors. A main topic of these meetings was the survey, and it was felt that an open discussion among funeral directors would help to generate support for the promotion and distribution of the booklets. Even though the WFDA board had endorsed the project, many individual members remained skeptical.

A press release announcing the availability of the booklet was prepared, and appeared in papers throughout the state. Several individual funeral homes as well as district associations placed advertisements in area newspapers announcing the publication. Other media reference to the booklet occurred when articles on the FTC rule included information about the survey. In an effort to reach as many consumers as possible, the booklets were priced at \$1.00 each, with bulk rates available. Over 4000 booklets were sold between

January 1982 and June 1983 when a revised edition with more current price information was printed to replace the first booklet.

Materials which incorporate price information become dated rather quickly; to be effective for continuing consumer education purposes, it is necessary to plan for continuous efforts to provide current information. In mid-January 1983 a second cover letter, name-address slip, and survey instrument were mailed to the then 588 Wisconsin funeral homes via first class mail, a second mailing to those who had not responded by mid-February was sent, stressing the February 25th deadline, and data was tabulated during March. The only changes in the content of the guide were to expand the section on pre-purchasing individual items of funeral merchandise and to add a new section titled Office of Consumer Protection Recommendation, which included a statement from the Wisconsin Department of Justice on the pre-purchase of funeral merchandise.

As evidence of the success of this method for reaching consumers across the state, between July 1983, when the revised booklet was printed, assembled, and ready to mail, and March 1984, 5,900 copies of the revised booklet have been distributed.

Any educational effort which is designed for adult consumer education involves consideration of how to best reach the largest numbers of individuals. To introduce the revised booklet, CCA staff planned a program in Milwaukee in July 1983, which attracted about 100 persons as well as print and broadcast media. Also, at an annual CCA sponsored consumer education conference, approximately 100 teachers from throughout Wisconsin received a complimentary copy of the booklet along with CCA developed teaching/learning materials on funeral services. CCA staff also participated in presentations to local senior citizens groups. However, these efforts by themselves would not have resulted in the wide distribution of nearly 5,900 copies. One of the key benefits of having the booklet result from the joint efforts of the funeral industry and University-Extension was that the WFDA and its individual members assisted in marketing, promoting, and occasionally purchasing booklets for free distribution to consumers.

Advantages of Cooperation

There have been other advantages gained from this joint project. The fact that such a large number of funeral directors responded to the survey requesting price information, over 64% of the homes in the state, when the industry as a whole has been opposed to regulations for requiring price disclosure, is attributed to WFDA involvement. In addition to success as an educational endeavor, the survey results have had legislative impact as well. U.S. Senator Robert Kasten, chairman of the Consumer Subcommittee of the Senate Commerce Committee, noted for his opposition to FTC regulation of used-car dealers and professionals, said in a Senate speech on

February 28, 1983, that he would favor FTC regulation of funeral homes. Senator Kasten cited the CCA/WFDA survey results in explaining his support, as indicated in the following excerpt from a Milwaukee newspaper article.

"The FTC would require funeral directors to provide itemized price information. The purpose of the regulations, Kasten said, was to provide consumers with an alternative to 'package pricing' for funerals. In Wisconsin, he said, 85.5% of the funeral directors who responded to a 1981 survey used package pricing. While many people who plan a funeral would rather leave arrangements in the hands of a funeral director, Kasten said, others would 'prefer to make a more systematic and well-informed choice.'" [5]

On the state level, development of a good working relationship with WFDA has been beneficial to the Center as proposed legislation on pre-financing of funeral merchandise is being considered. Taking a position which represents the best interests of consumers is possible only after extensive consideration of the issues, which is facilitated by having access to industry based materials and perspectives. It has also proven advantageous for the funeral industry to work with the University-Extension on this project, as it can be used as evidence of their willingness to cooperate in providing information to consumers. One of the authors of the booklet, Paul Haussman, is currently serving as chair of one of the ten regional THANACAP panels, another direct result of the industry-university cooperative venture.

The advantages of this joint effort between industry and university to provide consumer education far outweigh the disadvantages. One initial disadvantage was the length of time involved in establishing trust and reaching agreement before the original booklet could be printed. However, once achieved, the revised booklet was prepared in a normal time period. The process necessary to reach agreement involved much compromise with concessions made by both CCA and WFDA. Rather than seen as a disadvantage, this can be considered a strength as it resulted in a document which has been carefully thought through, well researched, and with objectivity retained. The extent of objectivity surfaced during testimony at a recent hearing on a state bill regulating funeral industry practices in Wisconsin when the CCA/WFDA survey was used by both sides to support their positions.

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THE CONSUMER DECISION TO GO TO COURT:
AN EMPIRICAL ANALYSIS

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ABSTRACT

There is virtually no research on the consumer decision to take legal action. To alleviate this void, 223 consumers who faced a decision to go to court were surveyed. Based on the results of this survey the factors affecting the decision to seek legal redress were isolated and policy changes were recommended which would facilitate the use of the courts by consumers.

INTRODUCTION

Consumerism, which is concerned with enhancing the rights of the buyer in relation to the seller, is an important movement, and the right of redress is an important element of this movement. The redress process starts with a consumer becoming unhappy with a product or service. Once a consumer is dissatisfied he or she can do one or more of the following - complain to the seller, take private or public action, or go to court.

There are empirical studies analyzing each aspect of the redress process. Regarding consumer dissatisfaction, Warland et al. discovered that one-third of the respondents reported that they had been mistreated as consumers in the prior year [18]. Best and Andreasen found, from a sample of 2419 people, that one in five purchases of frequently used products were unsatisfactory to consumers [1]. Westbrook et al. concluded from a sample of 349 persons in suburban Detroit that ten percent of the buyers were not satisfied with existing product or brand alternatives [19]. Diener and Greyser found that approximately one in twenty-five purchases of personal care products resulted in some dissatisfaction [5]. So it appears that the amount of consumer dissatisfaction in the United States is significant.

The action(s) consumers take in response to their dissatisfaction has also been studied. A very common method of redress is to complain directly to the seller. A study by Ross and Littlefield concluded that eighty-eight percent of the complaints related to appliances and TV's were resolved to the consumer's satisfaction [12]. This high rate of satisfaction is likely due to the seller wanting to maintain the good-will of the consumer. In addition, Bosching found that typed letters of complaint

elicited more seller response from the seller than handwritten notes [2]. However, many consumers do not complain to the seller. Non-complaint rates are as high as eighty-nine percent for personal care products [4], to forty-four percent for new cars [16] to twenty-five percent for clothing purchases [17].

Private action can be taken in response to dissatisfaction. There are many different private actions a consumer can take. He or she can switch brands, stop using the product, start carefully inspecting items in the store, or tell his or her friends. One study of 540 consumers of grocery products concluded that twenty-five percent of the unsatisfactory purchases resulted in brand switching, nineteen percent caused the shopper to stop buying the product, and thirteen percent led to in-store inspection of future purchases [10].

Public action can be taken after dissatisfaction has occurred. Many radio and TV stations have programs in which individual consumer grievances are investigated and discussed. Consumers can also go to the Better Business Bureau, the attorney general, or a government sponsored mediation agency. The data available on the types of public action that are most often taken, and the effectiveness of each type of action are limited. However, Steele concluded that mass media action lines were used very frequently by consumers [15], and Best and Andreasen found that consumers used the Better Business Bureau extensively. Best and Andreasen also found that consumer affairs departments have a much higher rate of success than does the Better Business Bureau [1].

Finally, a consumer can take legal action in small claims district or bankruptcy court in response to dissatisfaction. Only two studies were found which examine any aspect of consumer use of the courts. One of these studies examined factors which might influence a consumer's overall success in legal dispute. This study found that consumer income and the amount of the claim were negatively related to the likelihood of the case being settled out-of-court. Further, the study found that the retainment of a lawyer adversely affected a consumer's chances of prevailing in court [3].

The other study also examined the factors which might influence success in a legal dispute. The research unlike the first study found that attorneys did help a consumer's chances of winning. In addition, the research found that

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consumers had substantial waiting time on the day of the trial, and that most consumers completed the form to file the case in less than one hour (14).

Both of these projects concern actual use of the courts by consumers. There have been virtually no studies that examine why a consumer might take or not take legal redress. The purpose of this research is to discover information that might be relevant to a decision by a consumer to take legal action.

The possible factors that might be relevant to such a decision can be divided into two groups. First there are inhibiting factors which might prevent a consumer from seeking legal action. Such inhibiting factors might include whether a consumer had access to the court, the perceived chance of winning, and the perceived monetary, emotional and time costs of pursuing legal action. Then, there are motivational factors that might cause a consumer to go to court. Such factors might include the monetary and emotional benefits from winning.

THE DATA

Oregon maintains a Consumer Services Division which has responsibility for mediating conflicts between consumers and sellers. The Division has no legal powers and has to rely on persuasion to settle conflicts. When a case is not mediated to the consumer's satisfaction, he or she is generally referred to small claims or district court.

The sample was obtained from a mail survey of 500 consumers whose complaints were not resolved by state mediation. The survey was conducted in May and June 1981, and of the 500 delivered surveys, completed replies were received from 223 consumers. Considering that 22 consumers could not be reached and 41 indicated that they had, since talking with Consumer Services, resolved their complaint satisfactorily, the effective response rate was a relatively high 51 percent.

The relevant constructs were measured by either likert, open-ended, or multiple choice questions. Constructs were generally measured on a 5 point scale, with 5 meaning that the individual scored very high. For instance an individual who rated his 'anger at seller' as a "5" would be indicating that he was very angry, while an individual who rated his anger "2" would not be too angry.

The sample was then divided into those consumers who went to court and those consumers who did not take legal action, and average or mean scores were then tabulated for each group. Differences t tests were then performed to determine if the characteristics of those who took legal action were different than those who didn't take legal action. An alpha value of .05 was established to determine whether a significant difference existed.

RESULTS

Inhibiting Factors

Overall, a fairly low percentage of individuals went to court. Seventy-three percent of the people surveyed did not take legal action, nineteen percent did go to court, and eight percent were still undecided. These are a variety of concerns that might prevent a consumer from going to court. Table 1 examines inhibiting factors that concern access to court. Inhibiting factors are essentially those perceptions or conditions which might prevent consumers from taking legal action.

TABLE 1

<u>Construct</u>	<u>Inhibiting Factors: Access to Court</u> (mean values and significance levels)		<u>p value</u>
	<u>Took legal action</u>	<u>Didn't take legal action</u>	
Difficulty in taking off time from work	3.50	2.88	.04
Difficulty in traveling to court	3.05	2.86	.54

Scaled from 1 to 5: 1 = no difficulty
5 = extreme difficulty

There is literature to suggest that lack of access to the court may be a major reason why people don't take legal redress (6). The data doesn't seem to support this view in that those individuals that went to court had significantly more difficulty with taking time off from work during the day than did those consumers who refrained from legal action. If an inability to come to court during the day were a major obstacle to taking legal redress, one would expect an opposite result. Instead, people who decided to take legal action, while having some difficulty in leaving work as indicated by the 3.5 mean value, found a way to come to court. In terms of traveling to court there appeared to be no significant differences between the two groups. Further, neither group of respondents appeared to perceive too much difficulty in traveling to court. So, it appears in regard to travel, the courts are accessible.

Table 2 presents various inhibiting factors which concern perceived chances of winning. The most obvious of these is the consumer's perception of the probability of success in legal action at the time the complaint was not resolved by Consumer Services. The mean for the individuals who took legal action was 3.90, compared with 3.04 for those individuals who didn't go to court. So while most consumers felt they had a good chance of succeeding, the people who went to court perceived a significantly greater chance of

winning.

Also included in Table 2 are various factors which might affect a consumer's perception of his or her chance of success. The first such factor is belief that the courts would be fair. Those that took legal action had a mean of 4.13 compared with 3.25 for those who didn't go to court. So while people in general thought the courts would be fair, those who took legal action believed more strongly in the courts. Thus, the degree to which a consumer believes in the integrity and competence of the courts, might influence the perceived likelihood of winning, which in turn will influence whether a consumer takes legal action.

Perceived effectiveness is also included in Table 2. While those consumers who went to court saw themselves as slightly more effective than the other consumers, the difference is not significant at the .05 level. Therefore, perceived personal effectiveness may only have a small influence on a perceived probability of success.

Search for evidence and other information was another variable that was examined. Consumers who took legal action appeared to engage in a moderate search for evidence, as indicated by the mean value of 3.18. This was a significantly greater search effort than put forth by the consumers who didn't go to court. There is some question, however, whether search for evidence, leads consumers into taking legal action, or whether consumers decide to take legal action, and then search for evidence. More research should be performed to determine the direction of this causal relationship.

The amount of past court experience might also be important. As can be seen in Table 2, most consumers indicated that they had few, if any, past legal experiences. Further, there was no significant or substantive difference between the consumers who took legal action and those that didn't go to court. It appears, then, that the amount of prior court experience does not affect whether a consumer decides to take legal action.

Finally, education and occupational prestige were examined. As shown in Table 2, there is virtually no difference between the two groups of consumers on these variables. This is an interesting finding because it has been shown that higher education and occupational status were positively related to an individual's likelihood of complaining [9, 19]. Perhaps these upscale individuals, while feeling more competent to pursue a claim, don't trust the courts, or perhaps these individuals have more money, and thus less reason to pursue a relatively small claim. In any case, educational level and occupational status clearly do not influence whether a legal action is taken once the individual has reached state mediation.

TABLE 2

Inhibiting Factors: Chances of Winning
(mean values and significance levels)

<u>Construct</u>	<u>Took legal action</u>	<u>Didn't take legal action</u>	<u>p value</u>
Perceived probability of success	3.90	3.04	.00
Belief courts would be fair	4.13	3.25	.00
Perceived effectiveness in court	3.54	3.17	.25
Search for evidence and other information	3.18	2.51	.02
Amount of prior court experience	1.42	1.49	.83
Education*	4.66	4.74	.73
Occupational status*	4.13	4.11	.82

*Education and occupational were quantified on a scale of 1 to 7 using the Hollingshead index, with '7' indicating the most and '1' indicating the least prestigious occupational and educational levels.

Others scaled 1 to 5: 1 = lowest perceived probability winning, fairness, effectiveness, search, and court experience; 5 = highest perceived probability winning, fairness, effectiveness, search, and court experience.

Table 3 presents various factors related to perceived time costs in taking legal action. As can be seen, consumers who took legal action had a mean of 1.63 on the time cost, which indicated that they didn't feel that the loss of time was an important reason not to go to court. As these is a significant difference between the two groups on this construct, it is possible that feeling about time influence a consumers decision to take legal action.

In addition, a number of factors which might relate to a consumer's perception of time costs are presented in Table 3. These factors are 'amount of free time' 'number of children,' and 'age of youngest child.' It was felt that people who had more time, more children, and younger

children would find it more difficult to go to court because of the time involved. However, the data does not seem to support this notion as none of the differences were significant at the .05 level.

TABLE 3

<u>Inhibiting Factors: Time Costs to Legal Action</u> (mean values and significance levels)			
<u>Construct</u>	<u>Took legal action</u>	<u>Didn't take legal action</u>	<u>p value</u>
Perceived time costs	1.63	2.53	.00
Amount of free time	2.23	2.11	.61
Number of Children*	1.35	1.24	.23
Age youngest child**	10.56	11.56	.53

*simple number of children cared for (includes responses from single people)

**simple age of the youngest child

Other questions scaled from 1 to 5:

- 1 = no free time and no perceived time cost
- 5 = lots of free time and highest perception of time costs

The emotional costs in taking legal action and the factors which might influence perception of emotional costs are presented in Table 4. The people who didn't take legal action perceived a moderate amount of emotional costs, as evidenced by a mean of about 3.00, while the people who went to court perceived a relatively low amount of emotional costs, as illustrated by the mean value of 2.15. This difference is significant at the .05 level. So it appears the emotional strain may be a reason why consumers don't go to court.

Anxiety and the positiveness of past court experiences are two factors which may influence perception of emotional costs. Interestingly enough, people who went to court had significantly more anxiety and more negative past court experiences than individuals who didn't take legal action. One would expect that the individuals who went to court would have less anxiety and more positive court experiences. The direction and strength of the differences tends to indicate that while people who took legal action perceived moderate emotional costs, these perceptions were not related to anxiety or the nature of past legal experiences.

TABLE 4

Inhibiting Factors:
Emotional Costs to Legal Action
(mean values and significance levels)

<u>Construct</u>	<u>Took legal action</u>	<u>Didn't take legal action</u>	<u>p value</u>
Perceived emotional costs	2.15	2.99	.00
Anxiety	3.23	2.29	.00
Nature prior court experiences	2.90	3.26	.03

Scaled from 1 to 5: 1 = lowest perception emotional costs, anxiety, and very negative prior court experience
5 = highest perception emotional costs, anxiety, and very positive prior court experience

The perceived money costs in taking legal action, such as filing and serving fees, are presented in Table 5. The mean value for those who took legal action on the money cost question was 2.36, compared with 3.29 for those who didn't take such action. This difference is very large and significant at the .05 level, and seems to indicate that perceived money costs might be a major reason why consumers suppress their complaint when the alternative is legal action.

In regard to inhibiting factors, it can definitely be concluded that there are considerations which prevent many consumers from taking legal action. The most important are probably perceived time, emotional, and money costs, as the differences between those who took and didn't take legal action was very large on these variables, and as people who didn't go to court thought taking legal

TABLE 5

Inhibiting Factors:
Money Costs to Legal Action
(mean values and significance levels)

<u>Construct</u>	<u>Took legal action</u>	<u>Didn't take legal action</u>	<u>p value</u>
Perceived money costs	2.36	3.29	.00