

THE WHITE HOUSE
WASHINGTON

December 31, 1979

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MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack* ESTHER PETERSON *EP*

SUBJECT: Letter to Governors on Life Insurance Disclosure

The Federal Trade Commission has asked that you send the attached letter to Governors urging the adoption of the FTC's model life insurance disclosure format. We support the request.

Earlier this year, the FTC completed a study that showed that many whole life insurance policies do not pay an adequate rate of return on the \$141 billion "invested" by consumers in the "savings" portion of those policies. Policies available today give only 2 percent - 6 percent. The study concluded that if consumers possessed information to compare the costs and benefits of term versus whole life policies, they would be in a position to make better choices about their life insurance expenditures.

Due to the McCarran-Ferguson Act, however, which specifies that the business of insurance shall be regulated by the states, the FTC is without authority to require price disclosure. As a result, the agency developed a model life insurance cost disclosure format which it has urged the states to adopt. While many states, as well as the National Association of Insurance Commissioners have developed disclosure formats, they are deficient in several respects, including the failure to require disclosure of the annual rate of return.

The FTC report has sparked considerable controversy in the industry. Nevertheless, we believe the report and model disclosure format merit state consideration. Last year, you urged the Governors to adopt a model generic drug substitution law in the interest of savings to consumers. This action would be consistent with that initiative.

Fred Kahn and Stu Eizenstat concur in this request.
Speechwriters have edited letter.

<input checked="" type="checkbox"/> APPROVE	DISAPPROVE
a) Publicize letter & key points in model format	
b) Send to all State Insurance Commissioners	
c) " " " " Consumer advocates	
d) " " " " Legislature Speakers and	
e) " " " " Senate Pro-Pro Temp	
	Legis Insurance Committee Chairmen

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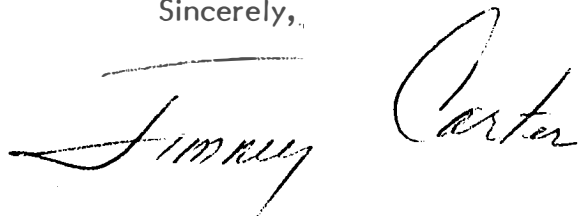
To Governor

Americans spend over \$30 billion a year on life insurance premium payments. Yet too often, consumers lack the basic cost information they need to find the best policy at the lowest price. The Federal Trade Commission has recently recommended a model state regulation on life insurance cost disclosure to help achieve this purpose.

On the basis of economic study and consumer research, the Commission concluded that whole life value insurance policies not held to maturity pay a relatively low rate of return on their cash values, and that consumers are not getting the information they need to understand the true costs of their policies. The result is billions of dollars a year in unnecessary costs to consumers.

I am enclosing a copy of the model state regulation and other material which summarizes the key findings and recommendations. The model regulation is designed to provide meaningful disclosure of life insurance costs. Under the law, only the states can act to require this kind of disclosure. This is an important initiative the states can take to promote price competition and to ensure that the life insurance market is responsive to the needs of consumers. I hope that the resources invested in this study by the Federal government will yield a dividend of increased Federal-State cooperation. I urge you and your insurance officials to give the model regulation the most careful consideration.

Sincerely,

The signature is written in a cursive, handwritten style. The first name, "Jimmy", is written in a larger, more prominent script, while the last name, "Carter", is written in a slightly smaller, more fluid script to its right.

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THE WHITE HOUSE

WASHINGTON

DATE: 02 JAN 80

FOR ACTION: RICK HERTZBERG

Handwritten signature: J. Hinder

INFO ONLY: THE VICE PRESIDENT

JIM MCINTYRE

SUBJECT: WATSON PETERSON MEMO RE LETTER TO GOVERNORS ON LIFE
INSURANCE DISCLOSURE

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM FRIDAY 04 JAN 80 +
+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

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To Governor

Each year, Americans spend over 30 billion dollars on life insurance premium payments. Because of the importance and the expense of life insurance, consumers need basic information on the cost of insurance policies so they can find the one that meets their needs at the lowest price. The Federal Trade Commission has recently recommended a model state regulation on life insurance cost disclosure to help achieve this purpose.

Based on economic study and consumer research, the Commission concluded that whole life value insurance policies, not held to maturity, pay a relatively low rate of return on their cash values, and that consumers are not receiving the information essential to an understanding of true policy costs. It was also estimated that ill-informed life insurance purchases have resulted in consumer costs of billions of dollars a year.

I am enclosing a copy of the model state regulation and other material which summarizes the key findings and recommendations. The model regulation is designed to provide meaningful disclosure of life insurance costs and to promote price competition. This is an important initiative the states can take to ensure that the life insurance market is responsive to the needs of insurance consumers. I urge you and your insurance officials to give it careful consideration.

Sincerely,

Enclosures