

STATEMENT OF BROCK ADAMS, SECRETARY OF TRANSPORTATION,
BEFORE THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND
TRANSPORTATION, CONCERNING S. 1381, THE "STANDARDS FOR
NO-FAULT MOTOR VEHICLE ACCIDENT BENEFITS ACT,"
FRIDAY, JULY 15, 1977.

Mr. Chairman and Members of the Committee:

I am here today to make a strong plea on behalf of the Administration to aid the millions of Americans who may be victims of automobile accidents.

It is time now to enact no-fault insurance legislation.

This Administration and the Congress have been working hard to find ways to make automobiles safer and less polluting.

As a matter of national conscience, we must turn next to aid the automobile accident victims. We must see that they get prompt and fair compensation for losses resulting from injury or death, without the need to decide who is to blame for the tragedy.

It is time to end the lengthy, expensive lawsuits, the long delays in deciding benefits and medical costs and the often unfair decisions that have plagued accident victims and their families.

Reform of the automobile insurance system has been discussed and argued for many years. It is long overdue.

Accident victims are entitled to an insurance system that is certain, comprehensive, timely and fair. We must correct the inequities and inefficiencies that have been so prevalent. Sixteen states have tried no-fault insurance and it works.

Because this Administration feels a national commitment must be made in this area, we are urging quick passage of S.1381, a bill to require minimum standards for state no-fault benefit plans for motor vehicle accident victims.

We urge a speedy consideration and enactment of this most important consumer bill.

In 1975 over 46,000 people were killed and almost 5,000,000 people were injured in automobile accidents. These are grim numbers. We are committed to reducing the number of accidents and accident victims. I am confident that we can save lives and prevent some injuries -- particularly with passive restraints -- but accidents will continue to occur and we need to address the problem of compensating the victims.

*Auto drivers must have safer cars and they must have an auto insurance system that provides incentives for safer cars. Today's insurance system does not tie together the benefits of safe cars with insurance costs. No-fault insurance will provide such incentives.

We have come to these conclusions based upon a great deal of study. Six years ago the Department conducted a thorough \$2 million study of the present tort liability system for automobiles. Highlights of that study illustrate graphically the shortcomings of the existing system:

1. Consumers received back only \$.44 of each premium dollar in the form of benefits. This auto benefit return compares to a benefit return, of 70 to 90 percent for other insurance systems such as private health insurance, workmen's compensation, and social security -- all of which are "no-fault." In litigated auto accident cases, the costs of lawyers and litigation expenses approximated the net benefits to the victims. Much of this money involved in court litigation rightfully belongs to the accident victims.

2. Hundred of thousands of accident victims suffered uncompensated losses either because they were found to be partially negligent or because the other party either had no insurance or had inadequate insurance. Forty-five percent of those seriously injured received no benefits from the tort liability system. Only about one-third of all accident victims received benefits under the tort system.

3. The existing system unfairly overcompensated the small accident victim and inadequately compensated or did not compensate at all the major accident victim. Where out-of-pocket victim losses were under \$500, victims recovered an average of four and a-half times their economic losses. Where losses were \$25,000 or more, even successful tort claimants averaged a net recovery of only about one-third of their out-of-pocket loss.

4. Seriously injured victims were required to wait an average of 16 months to settle their claims. This lengthy settlement time imposes an economic hardship upon the accident victim, but it also many times imposes a medical hardship because the lack of settlement may mean that necessary rehabilitation cannot be started.
5. Auto accident litigation consumed 17 percent of the court system's resources.
6. Evidence from the 1971 study and from later studies prove that the tort system does not provide an accident deterrent.

At my confirmation hearings last January I offered to have the Department of Transportation review the State no-fault automobile insurance experience and report its findings in time to be considered during these hearings. That report was completed last month and was transmitted to you. I would like to summarize very briefly the main findings of our review. Before I do so, however, I would like to make some observations about the nature of these State plans.

The sixteen existing no-fault plans differ greatly in their benefit levels, tort thresholds and other important characteristics.

Many retain more of the characteristics of the insured tort liability system than they do of no-fault. Some emphasize price and cost objectives, while others emphasize greater benefits. All in all, most State no-fault plans have been quite modest both in terms of benefit levels and degree of restriction on tort liability. Only the Michigan plan comes close to being the kind of system envisioned in the recommendations that have been worked out through the years. In attempting to assess the performance of no-fault at the State level, as well as any problems it may have encountered, this point should be kept firmly in mind.

Our review of the reported experience of the States with no-fault concluded the following:

With respect to benefits, no-fault does accomplish in practice what it was designed to do in principle. No-fault is compensating more victims, more completely, more quickly and more equitably for their real economic losses than did the tort liability system, and with less reliance on the courts and the legal system. For example:

- The percentage of all Personal Injury Protection claims being paid to single car accident victims in

Massachusetts rose from 2.9 percent in 1969 to 22.2 percent in 1972 after the introduction of no-fault.

Most single car accident victims had no access to such benefits under the insured tort liability system.

-- Following the introduction of no-fault, claim frequencies -- a measure of the number of victims recovering benefits from bodily injury auto insurance -- typically went up 50 to 100 percent.

-- In New Jersey, nearly 80 percent of motorists injured during the first six months of no-fault, January-June 1973, had been paid their no-fault benefits by the end of September 1973. The comparable figure for the previous year under the tort system was 50 percent.

-- Auto accident negligence cases filed in Michigan dropped from 13,118 in 1972 (the last full year before no-fault) to 10,079 in the year ending June 1976, a drop of 23 percent.

Similar drops were experienced in Florida and Massachusetts.

With respect to costs, the experience of the States, taken overall and adjusted for inflation, does support a shift to no-fault.

-- A comparison of typical urban and rural premium rates between 1971, i.e., before no-fault's introduction, and 1977 in the sixteen no-fault States shows that when adjusted for inflation most rates either declined or held steady.

I will now address briefly the argument that automobile insurance reform is best left to the States. Over the past quarter of a century, automobile accidents have become a national as well as a state problem. We have become a nation of interstate drivers. In many areas the number of non-resident drivers equals the number of resident drivers. In the State of Vermont on any given summer day, more than one-half of the drivers are from out of state. In cities such as Washington, New York, Chicago and St. Louis, a substantial portion of the commuter traffic is from out of state. A person traveling across State lines should have adequate assurance of comparable protection. As I have indicated, there has been some state enactment of no-fault laws. But these laws have been adopted only in 16 States and vary in great degree. We need a more national and uniform approach.

With respect to S. 1381, we find it to be an exceptionally well drawn and sound piece of legislation. The standards that it would set for State no-fault plans are, of course, minimum standards, and this is an important point when we consider the question of Federal-State relations. I would hope and expect that most States, and ultimately all States, would choose to adopt a much stronger no-fault plan than the standards require, especially with respect to the first-party benefit coverages. I would also hope that some States would begin to experiment with different ways of dealing with the matter of compensating victims for intangible losses rather than continuing to rely on the adversary adjudicatory approach which characterizes the insured tort liability system.

Let me conclude with this basic point. We must remember that accident victims deserve a reparations system that is certain, substantial, timely and fair. A reparations system cannot be fair, either to the great mass of premium payers or to individual victims of accidents unless it is efficient in doing what public policy has long decreed that it should do -- get as much of the premium dollar as possible to victims who truly need help. Today, for the most part, neither premium payers nor victims are being given the opportunity to participate in an accident reparations system that

comes even reasonably close to meeting these simple criteria.
S. 1381 does offer that opportunity.

Mr. Chairman, that completes my prepared remarks.
I would be happy to answer any questions the Committee may
have.