Members present:

Chairman Jeffrey
Vice Chairman Robinson
Assemblyman Bennett
Assemblyman Chaney
Assemblyman Sena
Assemblyman FitzPatrick
Assemblyman Rusk
Assemblyman Tanner
Assemblyman Weise

Members excused:

Assemblyman Bremner
Assemblyman Horn

The meeting was called to order at 4:30 p.m. and Chairman Jeffrey stated that AB 842 would be held until a later time so that Mr. McNeel, the labor commissioner, could be present.

SB 387: Mr. Jack McElwee, SPPCo, testified on this bill and read from a prepared statement on behalf of Mr. William Branch which is attached and marked as Exhibit "A". The committee discussed with McElwee what type of depreciation is used and the life of the depreciable assets. Mr. McElwee stated that they use a straight line method and the life of the assets varies with what it is, i.e. a generator (22-1/2 years) or some other type of equipment. He also stated that there are other considerations for rate setting than depreciation, such as fuel costs, overhead and administrative expenses and profit figures.

David Russell, Southwest Gas, stated that there is another aspect to the bill on page 3, subsection 2. He stated that this would allow for them to carry forward excesses which might occur in the northern or southern part of the state to the next fiscal period rather than having them refunded which is not very practical in actuality. He stated that they had been doing this with permission from the PSC, but that this would provide for that by statute.

Heber Hardy, Chairman of the Public Service Commission, said that this bill was introduced by the Commerce Department and that they had not agreed with the way the bill was originally drafted. He said that this bill now is the result of their meetings and a compromise which they could accept. He told the committee that there is a problem in the accounting procedures that can arise when a major unit is installed because it can cause some cash flow problems and this would help to eliminate that for the utility companies by allowing the PSC to review the circumstances and allow additional amounts to be taken into consideration regarding depreciation. It was pointed out that some of this problem is brought about because the unit may have a useful life of 40 years, yet it can only be financed over a 30 year period.

Concerning Mr. Russell's remarks, Mr. Hardy stated that they have been doing this as a matter of policy, but they felt changing the statutes to allow this to be done would be to the public benefit. That concluded testimony on this bill.

SB 505: No one was present to testify on this bill.

AB 843: No one was present to testify on this bill.

SB 313: Mr. Dave Guinan, Nevada Trial Lawyers Assoc., stated that he had helped to draft the initial no fault law in 1973 and that he had worked in the Insurance Division while it was originally being implemented, but that he now was in favor of this bill because it was his opinion now that though no-fault was good in theory, it had not worked well in application. He stated that due to the high uninsured percentage in the state, there is a great economic detriment to many of the motorists in the state.

He stated that due to the Serman v. Greeble decision which came from the U.S. District Court approximately one year ago, it has been decided that when an uninsured motorist is injured in an accident, even though the accident wasn't his fault, he would have to pay for the first $10,000 of his loss himself out of his own pocket; which was, in effect, a deductible. He stated that this aspect was briefly considered in 1973, but it was not thought to be an important consideration. He told the committee that, under the present system, he felt that $10,000 sanction was to great for the uninsured motorist to bear when he is injured in an accident when it was not his fault. He stated that it has worked out that those people who can afford to pay for the premiums have received, for the most part, good first party benefits and those who cannot afford that coverage have been left out in the cold. He said that he felt the only way to solve the problems relative to the current no fault law was to repeal the no fault law and reverting to the tort system, based upon the theory that one can recover damages for his injuries if another person is at fault and injures him.

Mr. Guinan stated that the original draft of the bill had included first party benefits on an optional basis and that he would agree with doing it that way, but that they would also go along with the bill as it was, because the present system is not working.

In answer to a question from Mr. Jeffrey, Mr. Guinan stated that people would have to get alternate coverage for medical and other types of coverage, to offset the brb coverage by January 1980, if the no-fault law was repealed, or go unprotected. Mr. Guinan discussed with the members what options might be open to those seeking coverage for that coverage which would be eliminated by the repeal and the possible costs contingent thereto.

Gary Bullis, one of the founders of the Nevada Trial Lawyers Assoc., stated that he had not supported no fault in concept. He stated, too, that he not only does defense work for insurance companies, as well as for people who are injured, and that he would like to let the committee know that no fault is not only a mess from the various interpretation problems and legal problems, but that it is also costly to the consumer. He added that it has been very good for his practice. He stated that he received referrals from other attorneys all the time because even they do not fully understand the legal implications of the law (and he stated that he was not sure if he really did either). He told the committee that it was his opinion that no fault had increased the costs of suit, and increased number of claims against the insurance companies and had increased the time spent in court. He stated that under the no fault provisions as they are now, those people who do not have the knowledge or money to know how to collect their claims or to get the help to do so, really have a difficult time in obtaining proper help.

First to speak in opposition to the bill was Mr. Gene Gardella, insurance agent speaking on his own behalf, who stated he wanted to inform the members relative to how this affects the individual policy purchasers. He said that the chances for changing no fault laws and making them more effective during this session are practically none existent because of the time problem. He said that the mandatory aspect of currently laws, without enforcement, makes 60% of the drivers responsible for 100% of the losses and premium payments which is not equitable or effective. He also stated that one of the prime problems was the fact that the $750 current threshhold amount is not sufficient for even minor accident claims anymore and that that should be changed to either a higher monetary limit or a verbal threshhold.

He said that the law was not drafted with enough of a threshhold to begin with and that due to that fact, no fault had not had a chance to be a good law from the beginning and even more so now, with inflation.

Mr. Gardella said that he felt the bill should be held because: 1. If you repeal no fault there will be many people over the next two years who will not have sufficient coverage for either medical payments or loss of income, and 2. If no fault is repealed, the federal government may become involved in this area.

He also said that he felt the NTLA had too much influence on the Senate committee and that the insurance lobby had been financed by people from outside the state and were not, therefore, directly responsible to the people of this state. He stated that he, and others, had felt that the lobbyists had let them down, but that he would be back next session to show the legislature how and why no fault could be a good program, such as it has been in Michigan and Florida.

In answer to a question from Dr. Robinson, Mr. Gardella stated

that even if this didn't go into effect until January, 1980, there would still be a problem with people not being insured. Mr. Sena stated that he felt passage of AB 108 by the Senate would help to eliminate that problem to a great extent because it would provide that people who drove without insurance would be guilty of a misdemeanor and subject to fines, etc. Mr. Gardella said that he would still rather see no fault left in the law, but with a higher threshhold.

Mr. Gary Pauley, State Farm Insurance, stated that he did not feel if Nevada repeals no fault that the federal government would become involved here. He then referred to a letter which was prepared by Don Rhodes of the Research Department, which is attached and marked as Exhibit "B". He stated that experience had indicated that Nevada's law is probably no worse or better than any other state's law. He did state that he would like to make a correction to the report in that when no fault was instituted in various states that it was proposed as a cost savings tool, but that in actuality it should probably have been proposed as the best available tool to try to fight inflation so far as pay outs were concerned under first party benefits or auto policy contracts.

He said that Nevada's law had not been working well and that he did not feel that it was because of a particularly low threshhold, but it is due to the fact that there have been abuses of the threshhold as it exists in Nevada law.

Mr. Pauley stated that there company has a national base which can be used to compare rates from state to state and he reviewed some of their comparative figures for bodily injury settlements, etc. and that information is attached and marked as Exhibit "C". He indicated that there had to be some other reason for Nevada's high payouts, and he felt that part of the problem was that the system was being abused in Nevada.

He also pointed out that there had been a lot of money spent by a lot of people putting no fault into Nevada law and that if it is repealed, their company alone will spend a great deal of money taking out those provisions and that cost will be passed along to the consumer (approximately representing a 12% increase). He indicated that people would probably be replacing the lost coverage with various types of med-pay programs.

In answer to a question from Mr. Tanner, Mr. Pauley stated that their company probably wouldn't have to cancel policies and issue new ones because they issue coverage on a six months basis, but that there would probably be other companies which would have to do that.

He also told Mr. Sena that he did not feel the passage of AB 108 would have much impact unless the highway patrol and the courts really make an effort to enforce it. He also stated that he thought it would be interesting to come back two years from now and discuss what happens when the public finds out that they are

no longer covered for medical, funeral, salary compensation and survivior's benefits. Dr. Robinson asked Mr. Pauley if the uninsured motorists benefits wouldn't cover a portion of those items. Mr. Pauley stated that it depends largely on the coverage one has, but not all policies and companies are the same, and most did not. He also pointed out to Dr. Robinson that the only thing that would help is to raise the threshhold to a level that would not be immediately eaten away by inflation and he added that Nevada is one of the highest loss states in which they write. He told the committee, after further review of Exhibit "C", that a verbal threshhold or higher monetary threshhold would be better than repealing the no fault law entirely, in his opinion. In answer to a comment from Mr. Sena, Mr. Pauley stated that probably the reason more insurance agents had not become involved in this issue, was because they didn't particularly care if they repealed the no fault provisions or not, because they would still be selling policies of some kind.

Rennie Ashleman, NTLA, stated that he felt that the coverage which would be eliminated with the repeal of no fault would be available to most people under optional plans. He also stated that he felt a verbal threshhold would create many litigation problems. He stated that he did not feel establishment of a verbal threshhold would, necessarily result in lowering rates, and he thought it would cause some promes in getting to court. He said that if you cut down litigation, you would also cut down payments and compensation, etc., but it is hard to determine just exactly what would slow down the increase of premiums. Mr. FitzPatrick told the committee that he would hate to see Nevada go back to a straight tort system because he felt it would increase the number of medical indigents which would have to be paid for in other ways. In answer to that, Mr. Ashleman stated that most people in Nevada already had some kind of medical insurance and that no matter what you do regarding specific insurance coverage, there will still be some people who will be driving without insurance.

Don Heath, Insurance Commissioner, and Chuck Knaus, acutary for the Insurance Division, were next to speak to the committee. Mr. Heath stated that passage of this bill would be logical, he believed, in light of the legislature's reluctance to take on a verbal or higher monetary threshhold, unless you could resolve the threshhold problem this session. Mr. Heath and Mr. Knaus discussed with the committee the various cost factors involved in people obtaining replacement coverage for those which will be eliminated if the bill passes.

Mr. Knaus pointed out that if you consider only the premiums for no fault coverage, the only place in the state where that premium has increased is in Las Vegas (at least for State Farm policy holders). He stated that when you go to a med-pay program you have a wider base to figure rates on. In answer to a question from Mr. FitzPatrick, Mr. Knaus stated that for the same period in Las Vegas, Bodily injury rates increased approximately 234%, between 2/1/74 and 9/15/78.

He pointed out that for that period, state-wide for all coverages, the increase had been an average of 188%. In answer to another question from Mr. FitzPatrick, Mr. Knaus stated that it would be possible for the premiums to continue to increase at a rapid rate even if we went back to the tort system because there was no way to compare the recent increases with what the increases would have been for that period if the tort system had been in effect and not no fault.

Mr. Pauley added that if you are going to talk in comparative percentages, it is very difficult to be accurate with the figures because each state varies with its rates and its experience, etc. Mr. Anderson from AAA, agreed with Mr. Pauley.

In answer to a question from Dr. Robinson, Mr. Knaus stated that there was no appetite for raising the threshhold in the Senate Commerce Committee whatsoever.

Mr. Knaus stated that he felt much of the coverage which could be obtained on the open market to replace that lost under no fault would probably cost the public twice as much if purchased separately. He also stated that with uninsured motorist coverage to help pay your expenses you would have to prove that the other person was not insured and that it was his fault; and that if you were partly at fault, it would decrease the amount of claim you could make and collect. He told the committee that the prime difference between no fault and uninsured motorist coverage was that with no fault you didn't have to prove anything as to fault. He stated that broader uninsured motorist coverage might be available, but for his money he thought no fault was better because of the proof factor.

He also pointed out that section 7, page 5 would eliminate the arbitration provisions under the law and the only was to get satisfaction or a decision would be to go to court and he felt that would increase the cost of uninsured motorist coverage.

Mr. Heath pointed out that by repealing no fault, it may save some people some money, but that they would not have the same coverage and benefits as they presently have. Mr. Knaus agreed and said that even if your premiums went down, your coverage would be altered considerably in most circumstances.

Mr. Knaus discussed with the committee how a company and the courts would determine what coverages were payable on an accident if it fell during the time of the change over in policy provisions. Mr. Knaus stated finally that he felt the benefits and settlement would be determined relative to the effective date of the changeover compared with the date of loss.

There being no further business to come before the committee, the meeting was adjourned at 6:30 p.m.

Respectfully submitted,

Linda D. Chandler

Linda D. Chandler

A

Sierra Pacific Power Company

TESTIMONY OF WILLIAM C. BRANCH, TREASURER,
SIERRA PACIFIC POWER COMPANY
IN SUPPORT OF S. B. 387

In 1975, the Nevada legislature made changes to NRS 704.110 which requires the Public Service Commission in setting rates to consider increased investment, certain expenses and costs of new securities which are known and measurable with reasonable accuracy at the time of filing, and which will become effective within six months after the last month of the actual 12-months results of operation. The result of that legislation has been a strengthening of the financial standing of the major utilities in the State.

There are, however, two items that we feel require further clarification so that the intent of the original statute can be preserved.

(1) Depreciation expense, or capital recovery, is a major cost component in the over-all cost to serve our utility customers. Based on current Commission practice, there is a substantial lag between the actual recording of such expense and recovery from our customers. I have prepared Exhibit I, attached to illustrate such lag.

The bottom line as far as Exhibit I is concerned is as follows:

(a) Recovery of actual depreciation expense for Tracy #3 experienced in 1975 is not fully reflected in Sierra Pacific's electric rates until March 1977, or fifteen months after the fact.

(b) The total investment in Tracy #3 cannot be fully recovered over the life of the facility because of the above-mentioned lag. In fact, approximately 4.4% of this investment, or about $1.0 million will remain unrecovered at the end of the estimated service life.

The impact on Sierra Pacific's future investment recovery will even be greater. For example, Valmy #1 and #2 will each cost 3½ times the investment in Tracy #3.

The proposed amendment to NRS 704.110(3) (lines 9 and 10, page 2) will alleviate the above-mentioned problem.

(2) Another modification we feel necessary is shown on line 11, page 2. This change will enable the Company to reflect in its cost of capital reductions or retirements in securities as well as new securities.

I urge this Committee to pass proposed S. B. 387.

EXHIBIT A

1624

Sierra Pacific Power Company

EXHIBIT I

RECOVERY OF NEVADA JURISDICTIONAL DEPRECIATION COSTS
APPLICABLE TO TRACY GENERATING STATION UNIT #3

Line No.		(1) Depreciation Per Books	(2) Recovery Through Rate Increases Made Effective as Follows: 6/3/76(b)	(3) 3/14/77(c)	(4) Total Recovery	Line No.
1	Annual Charge or Recovery - 1975	$ 573,000(a)	-0-	-0-	-0-	1
2						2
3	Cumulative @ 12/31/75	573,000	-0-	-0-	-0-	3
4						4
5	Annual Charge or Recovery - 1976	573,000	$ 223,000	-0-	-0-	5
6						6
7	Cumulative @ 12/31/76	1,146,000	223,000	-0-	$ 223,000	7
8						8
9	Annual Charge or Recovery - 1977	573,000	382,000	$ 159,000	541,000	9
10						10
11	Cumulative @ 12/31/77	1,719,000	605,000	159,000	764,000	11
12						12
13	Annual Charge or Recovery - 1978	573,000	382,000	191,000	573,000	13
14						14
15	Cumulative @ 13/31/78	2,292,000	987,000	350,000	1,337,000	15
16						16
17	Annual Charges - Remaining Years	19,245,000	14,434,000	4,811,000	19,245,000	17
18						18
19	Cumulative - End of Service Life	$21,537,000(d)	$15,421,000	$5,161,000	$20,582,000	19
20						20
21	% of Total Investment	100.0%			95.6%	21
22						22
23						23

Notes:
(a) Nevada jurisdictional portion of annual depreciation charge ($735,000 x 78%).
(b) Docket No. 574 (rates effective 6/3/76).
(c) Docket No. 906 (rates effective 3/14/77).
(d) Nevada jurisdictional portion of plant balance at 12/31/74 ($27,611,000 x 78%).

EXHIBIT A

1625

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
CAPITOL COMPLEX
CARSON CITY, NEVADA 89710

ARTHUR J. PALMER, *Director*
(702) 885-5627

LEGISLATIVE COMMISSION (702) 885-5627
DONALD R. MELLO, *Assemblyman, Chairman*
Arthur J. Palmer, *Director, Secretary*
INTERIM FINANCE COMMITTEE (702) 885-56-
FLOYD R. LAMB, *Senator, Chairman*
Ronald W. Sparks, *Senate Fiscal Analyst*
William A. Bible, *Assembly Fiscal Analyst*

FRANK W. DAYKIN, *Legislative Counsel* (702) 885-5627
JOHN R. CROSSLEY, *Legislative Auditor* (702) 885-5620
ANDREW P. GROSE, *Research Director* (702) 885-5637

May 15, 1979

TO: [redacted]

FROM: Donald A. Rhodes, Chief Deputy Research Director

SUBJECT: Background information on no fault automobile insurance

This is in response to your request for background information on no fault automobile insurance and a listing of the pros and cons of such a system. As you asked, the memorandum has been kept short and not too detailed. There are, however, several enclosures, referenced at the end of the memorandum, if you desire a more comprehensive review of this subject. I have asked for additional information from the California Senate Committee on Insurance and Financial Institutions, the Nevada division of insurance and the State Farm Mutual Insurance Company and will forward it to you as soon as it arrives.

What is the difference between fault and no fault insurance?

The tort liability system (fault system) of reparation for accidental injury was a product of the same Industrial Revolution that produced the automobile. It provided that an injured person could not collect reimbursement from one who caused his injury unless he could prove that the other person had been guilty of negligence (unreasonably risky conduct). The system was a modification of the stern theory of absolute liability that had dominated the law since the beginning of civilization. The famous legal code attributed to the Babylonian king Hammurabi, who lived shortly after 2,000 B.C., provided that if a person caused an injury, he must suffer accordingly. Most early legal codes were quite harsh in this respect. For example, if a stone fell from the parapet of a house and killed a man passing below, the builder of the house was put to death. Fault was not an issue. The builder created the instrumentality of harm, and that was all that mattered.

EXHIBIT B 1626

With the coming of the Industrial Revolution, it was obvious that factories and railroads could not be built and operated under an absolute liability system. The courts gradually shifted from absolute liability to the concept of tort liability, which provided that the causer of an injury was not responsible unless he was guilty of wrongdoing or fault. In cases of accidental injury, fault usually consisted of negligence.

A liability insurance policy is a legal contract between two parties, the policyholder (called the party of the first part) and the insurer (called the party of the second part). No fault insurance is called first party insurance because its benefits are paid to the policyholder himself, the first party. On the other hand, liability insurance pays benefits to a third party - the person injured through the negligence of the policyholder. Certain forms of no fault type automobile insurance have been available since the beginning of the auto and most drivers carry some for of it. For example, medical payments insurance pays the policyholder for the medical costs of his own injuries without regard to who is at fault in the accident. Collision and comprehensive insurance also provide for payment without regard to fault.

The concept of no fault auto insurance dates from the philosophy that prompted passage of workmen's compensation laws in the early part of this century. In fact, early recommendations for the adoption of a system not based on fault date back to 1919 when two proposals were made to adapt the workmen's compensation no fault principle to the problem of auto accident compensation.

A pure no fault system eliminates all fault, or liability, coverages from automobile insurance policies. No state has enacted a pure no fault system. The tort liability concept has usually been retained for various reasons such as permanent disability, disfigurement, death, or other serious injuries. Also, many states' no fault laws have various minimum medical expense threshold levels which must be reached before a person can sue for damages - Nevada's threshold is $750. Some states, such as Minnesota, have thresholds as high as $4,000.

No fault states.

To date, 16 states (Colorado, Connecticut, Florida, Georgia, Hawaii, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, North Dakota, Pennsylvania and Utah) have adopted some form of no fault automobile insurance statute. Four states (Delaware, Maryland, Oregon, South Carolina) have modified their tort (fault) system and five states (Arkansas, South Dakota, Texas, Virginia and Washington) have provided for certain no fault first party coverages. No state has repealed a no fault law.

Two enclosures "Current Status of No Fault Automobile Insurance Legislation in Other States" by the Illinois Legislative Council and a table entitled "Provisions of State No Fault Laws" discuss and illustrate other states' no fault laws.

Nevada legislation to repeal or modify no fault.

Because of dissatisfaction with Nevada's no fault law, there have been recent attempts to modify or eliminate it entirely. These measures include S.B. 350 of 1977, which would have eliminated no fault, S.B. 381, of the 1979 legislative session, which would have raised the threshold for tort liability based upon medical benefits paid to injured persons from $750 to $5,000, and S.B. 313 of 1979 which abolishes no fault.

The threshold problem.

One of the continuing controversies relating to no fault insurance is the type or magnitude of threshold which should be established before a person can sue the alleged at-fault driver. Those in favor of no fault favor keeping suits to a minimum to make the no fault system work. Those against the no fault concept believe anyone should have access to the tort system to receive full compensation for injuries. The amount of such "full compensation" would be, of course, established by the courts.

Three types of threshold considered for no fault auto insurance are dollar, verbal and psychological. As noted above, Nevada's dollar threshold is $750. Some believe Nevada's no fault system would work better and premiums would increase at a slower rate if the dollar threshold was set at a higher level.

A verbal threshold permits a suit for damages only if a party suffers a specified injury that consists of (1) significant and permanent loss of an important bodily function; (2) permanent injury within a reasonable degree of medical probability, other than scarring or disfigurement; (3) significant and permanent scarring or disfigurement; or (4) death. Some believe that the verbal threshold has resulted in automobile insurance savings in some states such as Florida. It is argued, however, that these savings have resulted from the elimination of a very large percentage of tort liability cases -- many more than just the "small cases."

The third type of threshold, psychological, requires first-party coverage such as personal injury protection, but does not restrict the right to sue. If a person does sue, however, he is required to pay back everything he has received from personal injury protection in order to avoid double recovery.

It is argued the positive effect of the psychological threshold is that the injured party does not feel deprived or cheated of his day in court if he is unhappy with the damages awarded him by an insurance company. He knows that he can still exercise his right to sue if he chooses.

The premium cost debate.

One of the big selling points of no fault insurance was that it would lower insurance costs, or, at least, slow the rate of increase in the cost of insurance premiums.

Gary Pauley, legal counsel for the State Farm Mutual Insurance Company, says such savings have occurred in states with good no fault laws. He cites Colorado and Utah as examples. The large increase in Nevada's insurance premiums, he says, is due to the low threshold in Nevada's law and abuses of the system which result in high levels of awards. He notes that Nevada has had about the same frequency level of accidents per thousand insured drivers as Colorado and Utah but that the severity payments have been much higher. Furthermore, he believes that if Nevada's no fault law was abolished, rates would rise by 10 to 12 percent.

One point to note is that the basic reparation benefits premium in Nevada is lower than it was in 1974. Offsetting this, however, is that other aspects of insurance premiums have increased at a higher rate than many believe would be called for by inflation.

According to an NCSL publication (1977) entitled "No-Fault Automobile Insurance":

> Auto insurance premium rates remained stable or climbed at a rate below that of the consumer price index until 1975. Since then, auto insurance rates have skyrocketed from 12 percent in Massachusetts to 65 percent in New York. States without no-fault laws also are being hit by increasing auto insurance premium rates. In California and West Virginia, for example, last year's rates rose by 20 percent.
>
> The rate increases, however, cannot be blamed solely on no-fault laws. Inflation accounted for a 51 percent rise in hospital and medical care costs over the past five years. During that time, the price tag on auto crash parts increased by 86.6 percent nationally, which has affected total auto insurance costs.
>
> Another contributing factor to soaring auto insurance rates is more auto accidents causing injuries and deaths. Accident claims in the past two years have begun to

outstrip insurors' premium income, and the stock market decline and recession which began in 1974 has had a negative impact on insurance companies' investments.

Strengths and weaknesses of state no fault laws.

The National Conference of State Legislatures publication on no fault also discusses strengths and weaknesses of no fault laws. It says:

No-fault laws have caused a marked decline in the number of lawsuits prompted by auto accident-related injuries. Michigan showed a 22 percent decline from 1973 to 1976 in auto negligence cases. Colorado court cases declined by 20 percent and Massachusetts court cases by 45 percent. These declines have helped to unclog state courts and to reduce the waiting time for the cases of seriously injured victims.

Another benefit of no-fault is that a larger portion of each premium dollar goes to the victim. In Florida, for example, 50 percent more of the premium dollar compensates the victim under no-fault. Under the fault system, one-third to one-half of the claim dollar goes to pay attorneys' fees alone. The fault system allows seriously injured accident victims to receive only about one-third of their actual losses, and the permanently disabled only about 16 percent. Also, in claims under $500, settlements usually average 450 percent of the actual loss, according to the U.S. Department of Transportation. The insurance company often would rather pay $2,000 on even questionable claims rather than spend the time and money in court contesting these "nuisance" claims.

No-fault also provides benefits to victims who would receive nothing under the fault system: one-car accident victims and those equally or totally at fault in an accident. That victims' medical costs and earnings losses are covered by no-fault laws is significant since about one-third of all auto accident injuries are the result of single-car accidents.

A low tort liability threshold is one weakness with some no-fault laws. In states with a threshold of less than $1,000, an accident victim can incur medical expenses which quickly reach the threshold, allowing him or her to then sue for general damages. In some states, medical expenses may be artifically inflated to bring the total above the dollar threshold. Florida encountered this problem, and in 1976 replaced a $1,000 threshold with a verbal threshold.

Another weakness in some no-fault laws is the low maximum amount of first party benefits.

Summary of arguments for and against no fault automobile insurance.

Persons appearing before Nevada legislative committees have mentioned several "pros and cons" about no fault insurance. The following is a summary of these arguments.

Pro No Fault

1. No fault provides for the immediate treatment and rehabilitation of physical injuries without financial hardship to the victim. There are no long delays while the court system determines "who pays" and "how much he pays."

2. No fault replaces the chance to file a law suit with a certainty of payment for economic loss.

3. No fault distributes more of the insurance dollar to the injured party.

4. Properly designed no fault laws could slow increases in insurance premiums.

5. Under no fault, a person does not have to worry about the liability coverage of the other driver. Under a tort system, the injured party is constrained by the liability coverage limits or financial ability of the other driver.

6. First party no fault type benefits, such as funeral expenses, salary continuation and survivors' benefits, would be more expensive, or perhaps unobtainable, if the state went back to a tort system. Also, if the state returned to a tort system, many persons would not obtain first party benefits and would suffer great economic hardships if they were involved in automobile accidents.

Against No Fault

1. No fault has driven up the cost of automobile insurance when it was supposed to reduce it.

2. High claims payments in no fault states are causing insurance companies to suffer financial losses.

3. The culpable party should bear the costs of his negligence. The tort system ensures this.

4. No fault has increased litigation in Nevada and "muddied the law."

5. No fault has spread the burden of its costs to low risk persons who normally would have lower premiums under a tort system.

6. Some insurance companies have not passed alleged savings to consumer under the no fault system.

7. No fault is an unfair restriction on the people's right to sue.

Enclosed are (1) A copy of "No Fault: Putting It Into Perspective" from the Insurance Backgrounder, a series of insurance related background papers produced by the State Farm Mutual Insurance Company; (2) Various sections from the analysis and comments section of the No Fault Press Release Manual (Analysis of No Fault in Bodily Injury Cases, Consequences of No Fault, Is No Fault Constitutional); (3) Minutes to Senate Bill 350 of 1977 and Senate Bill 313 of 1979; (4) A copy of Senate Bill 381 of 1979; (5) "Where No Fault Auto Insurance Stands Today from the November 1976 Changing Times magazine; (6) A chart showing State Farm Mutual Automobile Insurance Company's bodily injury and property damage premiums changes since 1974 in Nevada.

DAR/llp

Original document is of poor quality

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Figures referred to during Assembly Insurance Committee Hearing of May 16, 1979 - Re: 325313.

State Farm Insures between 105,000 and 110,000 vehicles in Nevada.

Paid Losses: BI 1978 Approximately $3.9 million
1973 Approximately 1.73 million

Insurance Cost - Above rated 1-B - new Business
Coverages BIPD, BRB at 10000 MRC, [illegible], 100 deduct.

Nevada (25/50/10 BIPD)	Michigan (20/40/10)
Reno 140.03	Flint 213.62
Las Vegas 165.66	Lansing 159.28
Remainder of State 144.98	Eastern Remainder of State 139.48
Washington (25/50/10)	Arizona (25/50/10)
Vancouver 146.08	Tucson 135.50
Tacoma 161.26	Remainder of State 115.28
Remainder of State, Western 138.82	

Pure Operational Cost of Removing No Fault from the contracts for State Farm - $160,620 (Estimated)
Cost of initial implementation - $185,129.50 plus estimated 4,121 manhours of work.

		(Vehicle)	(Field)
1977	Actual BRB paid amount	$2,038,530 +	273,379
1978	" " " "	2,622,181	(combined [illegible])
	MPC paid 1973 (No BRB available)	436,392	

Frequency vs Severity - Comments were phrased in terms of questions - i.e. If there are in fact 41% of the Nevada driving public uninsured then why is the U.M. frequency in Nevada (claims per 1000 policies) about

EXHIBIT KC

the same as Idaho and only in Washington is ... nearly 3 times as high. 4th quarter frequency for Nevada UM was approximately .31 claims per 1000 policies - Idaho was approximately .59 claims per 1000 policies and Washington was 1.68 per 1000 policies.

In addition why was UM Severity (average cost per claim) in Nevada more than double and nearly 3 times the average costs in Idaho and Washington - eg. 4th quarter 1978 figures for Nevada give an average paid claim cost of $6,818.27 per claim - Idaho was $2943.16 per claim and Washington was 2322.83 per claim.

If no fault repealed and we go back to the "fault" system with a $100 medical coverage (e.g. coverages such as those prior to 1974) our actuaries calculate that we will need to increase rates by about 12%.

This assumes complete elimination of at least 3 major no-fault 1st Party benefits

1. Survivors Benefit (life insurance type coverage)
2. Loss of Income benefit
3. In-home Services Benefit - (coverage for services of person of the non working)

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