

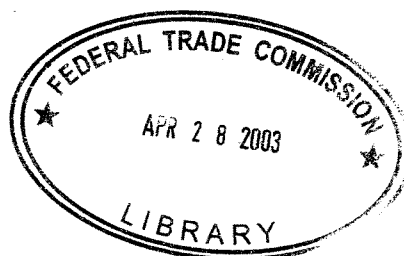
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Executive Summary

The Federal Trade Commission's Funeral Rule became fully effective on April 30, 1984. According to the rule's Statement of Basis and Purpose, several practices on the part of funeral providers impeded purchasers from making informed, independent choices. To rectify the perceived problems, the rule requires funeral providers to provide purchasers of funeral goods and services the option to purchase only those goods and services that they desire, and to provide purchasers, prior to purchase, with detailed information about the goods and services available and their prices.

This report examines the effects of the rule by presenting and analyzing data from two surveys of consumers who had recently arranged funerals. The first survey was conducted in 1981, prior to the rule's implementation, the second in 1987, after its implementation.

The data permit two approaches to assessing the rule's impact. First, the respondents from the two surveys can be compared to see whether, other things equal, purchasers in 1987, who were covered by the rule, spent different amounts on funerals than those in 1981, who were not covered by the rule. Second, the 1987 respondents who reported that their funeral providers complied with the key provisions of the rule can be compared with those from 1987 who reported that their funeral providers did not comply with those provisions to see whether purchasers who received compliance spent different amounts on their funerals than those who did not.

If the rule were having its intended effect, one might expect funeral expenditures to decrease either because purchasers were selecting fewer goods and services or because increased price competition generally lowered the prices of funeral goods and services. However, neither of the approaches to assessing the rule's effects suggests that the rule is related to lower expenditures on funerals.¹ The analysis indicates that, on average, the 1987 respondents spent approximately 9.0% more on funerals than the 1981 respondents, even after controlling for inflation and a number of factors that could influence funeral expenditures, such as the respondent's income

¹ The analysis focuses on the respondents' total expenditures for funeral goods and services. Data limitations argue against conducting a detailed analysis of the prices of individual items.

and the type of funeral selected. That increase is statistically significant. While this result does not establish that the rule caused the increase in real funeral expenditures, it strongly suggests that the rule did not contribute to a reduction in funeral expenditures.²

The analysis also shows that, after controlling for several factors that could influence funeral expenditures, the respondents who received the general price list required by the rule spent no less than respondents who did not receive that list. In fact, the analysis suggests that there may be a positive relationship between funeral expenditures and receipt of the general price list required by the rule. In addition, respondents who received a final statement spent about the same on their funerals as those who did not receive a final statement. Finally, respondents whose funeral providers simultaneously complied with several key provisions of the Funeral Rule spent no less on their funerals than respondents whose funeral providers did not comply with those provisions.³

In sum, neither of the approaches to assessing the rule's impact provide evidence that the rule has contributed to a reduction in real funeral expenditures. If anything, the balance of the evidence suggests that the rule is associated with higher, not lower, funeral expenditures.

In addition to the statistical analysis, this report presents summary statistics based on the results from the two surveys. Some of the findings are:

² This result assumes that the rule's relationship to funeral expenditures does not depend on the degree of state regulation in place when the rule was implemented. Yet, if the rule contributed to lower funeral expenditures (or dampened the rate of increase), one would expect that effect to be strongest in states that did not have regulations similar to the rule's when the rule went into effect. A separate analysis was conducted to examine that hypothesis, and it did not detect any relationship between the increase in funeral expenditures and the degree of state regulation in place in 1981.

³ In the analysis, these key provisions are that the funeral provider: 1) showed the respondent a general price list early in the meeting at the funeral home, that is, prior to the selection of a casket or other container; 2) gave the respondent a properly itemized final statement at the conclusion of the arrangements conference; and 3) did not represent falsely that embalming is a required purchase or that caskets are required for cremations.

- 1) In both 1981 and 1987, approximately two-thirds of funerals included an open casket service followed by a ground burial. According to the survey results, the proportion of funerals that included cremations increased from approximately 11% in 1981 to approximately 14% in 1987, a change consistent with the national figures compiled by an independent source. The data also suggest that, except for the upward trend in cremations, purchasers selected similar goods and services in 1987 as they did in 1981.
- 2) Purchasers of funerals seldom shop prior to purchase. Only 7.2% of the 1981 respondents and 4.2% of the 1987 respondents contacted more than one funeral home.
- 3) Purchasers of funeral goods and services in 1987 were more likely to obtain price information relatively early during their arrangements conferences than those in 1981.⁴ The proportion of respondents who fall into that category increased from approximately 61% in 1981 to approximately 68% in 1987.⁵
- 4) Compliance with the Funeral Rule appears to be neither particularly high nor particularly low. Funeral providers appear to be complying with the rule's provisions regarding the provision of price information over the telephone. With respect to the two documents that the rule requires funeral providers give to purchasers, approximately two thirds of the 1987 respondents reported receiving a general price list at some point during their arrangements conference, and approximately three quarters reported receiving a final statement at the conclusion of the

⁴ Respondents who reported receiving price information prior to the selection of a casket or other container were considered to have received price information relatively early.

⁵ The analysis found that respondents who received price information early in their arrangements conferences had statistically significant lower expenditures than respondents who did not. Insofar as the rule contributed to the increase in the proportion of respondents who received price information early, it may have contributed to lower funeral expenditures.

meeting.⁶ In addition, the data suggest that funeral providers misrepresent embalming and casket requirements relatively infrequently, i.e., ten percent of the time or less. However, the data also indicate that only approximately one third of the funeral providers provided both of the documents in the manner required by the rule and failed to make misrepresentations.

⁶ These figures overstate compliance because the rule requires that the general price list be provided at the outset of discussions of funeral arrangements and that the final statement be properly itemized. When these requirements are considered, the data suggest that funeral providers comply with the general price list requirement between one quarter and one half of the time and that they comply with the final statement requirement approximately two thirds of the time.

I. Introduction

The Federal Trade Commission's Funeral Rule became fully effective on April 30, 1984. According to the rule's Statement of Basis and Purpose ("SBP")¹ several practices on the part of funeral providers impeded purchasers from making informed, independent choices. The injurious practices included: (i) requiring consumers to purchase pre-packaged funerals; (ii) requiring individuals to bundle items together thereby prohibiting purchasers from selecting items separately; (iii) requiring consumers who wish to arrange a direct cremation to purchase a casket; and (iv) misrepresenting that certain goods and services, such as embalming, were required purchases.

To rectify the perceived problems, the rule requires funeral providers to provide purchasers of funeral goods and services the option to purchase only those goods and services that they desire, and to provide purchasers, prior to purchase, with detailed information about the goods and services available and their prices. In addition, the SBP states that the "rule's goal is to lower existing barriers to price competition . . . and to facilitate informed consumer choice."² Thus, by making price information more readily available to potential purchasers, the Commission hoped that the rule could exert downward pressure on prices.

The cornerstone of the rule is its provision that funeral providers offer consumers, at the outset of discussions of funeral arrangements, a written, itemized general price list. The general price list must contain the itemized prices for the seventeen goods and services cited in the rule, and it must disclose that the purchaser need select only those items that he desires. Another important provision of the rule is that funeral providers must provide purchasers of funeral goods and services a detailed final statement at the conclusion of their arrangements conferences. If the individual purchased the funeral on an item-by-item basis, the final statement must indicate which items were selected and the prices of each item.

¹ Federal Register. Vol. 47, No. 186. September 24, 1982, pages 42260-42304.

² SBP, page 42260.

While the rule has many other provisions,³ the provisions requiring a general price list and an itemized final statement address directly the injurious practices cited in the SBP.

This report examines the effects of the rule by presenting and analyzing data from two surveys of consumers who had recently arranged funerals. The first survey, called the Baseline Survey, was conducted in 1981, prior to the rule's implementation. The second survey, called the Replication Survey, was conducted in 1987, after the rule's implementation.

The data permit two approaches to assessing the rule's impact. First, the results from the two surveys can be compared to see whether respondents in 1987, who were covered by the rule, behaved differently than those in 1981, who were not covered by the rule. Second, the 1987 respondents who reported that their funeral providers "complied" with the rule can be compared with those from 1987 who reported that their funeral providers "did not comply" to see whether the rule affects the behavior of individuals who purchase funeral goods and services.⁴

The questions addressed in this report include:

1. On average, are real expenditures on funeral goods and services higher or lower in 1987 than they were in 1981? To what extent can any changes be attributed to the rule?
2. Other things equal, do purchasers who received the documents required by the rule have lower funeral expenditures than purchasers who do not receive those documents?

³ For example, the funeral provider must make detailed price information available to individuals who telephone the funeral home, must provide itemized casket and outer burial container price information, and cannot make any misrepresentations regarding required purchases to consumers.

⁴ I place "comply" in quotes because defining "compliance" with the Funeral Rule is not as straightforward as it might seem. The rule has numerous provisions, some of which are more central than others to providing itemized price information to purchasers of funeral goods and services, which is the rule's overriding purpose. Thus, one can sensibly talk about degrees of compliance with the rule.

3. Are purchasers of funeral goods and services in 1987 more likely to contact more than one funeral home than purchasers in 1981?
4. Did implementation of the rule have a greater impact in states with little or no existing regulation than in states with substantial existing regulation?

The remainder of this report contains three sections. The first section describes the source of the data used in this study. The second section presents simple summary statistics in tabular form. The final section contains the results from multi-variate statistical analyses which relate the amount spent by individuals on funeral goods and services to several variables, including ones designed to estimate the effect of the rule.

II. The Data

The data analyzed in this report were collected by two consumer surveys, the first survey conducted in 1981 and the second conducted in 1987.⁵ Both surveys consisted of mail questionnaires completed by members of a national mail panel, consisting of over 200,000 households that have agreed to respond periodically to mail and telephone questionnaires. The survey instruments used in the two years were similar, but not identical, to one another.⁶

The basic survey design was identical in both years. First, the mail panel firm sent "screener cards" to a demographically balanced segment of its panel.⁷ That card simply asked whether anyone in the household had been involved in arranging a funeral in the past six months. After the screener cards were returned, a detailed questionnaire was mailed to those who indicated having had a significant role in the arrangement of a funeral during the relevant time frame.

The questionnaires sought information on many areas including: 1) the type of funeral that was arranged; 2) whether any arrangements had been made with the funeral home prior to the deceased's death; 3) whether more than one funeral home had been contacted before a selection was made; 4) whether the respondent went to the funeral home when the arrangements were made; 5) what information was provided by the funeral director and when it was provided; 6) the total amount spent on the funeral goods and services provided by the funeral home; 7) the individual items purchased and their prices; 8) whether the respondent was satisfied with the funeral home; and 9) what representations were made by the funeral director.

⁵ I will refer to the two surveys as the "1981 survey" and the "1987 survey" because the questionnaires were mailed out in those years. Yet, it should be noted that the six month period covered by the 1981 survey was November 1980 - April 1981 and the six month period covered by the 1987 survey was December 1986 - May 1987.

⁶ The changes in the 1987 survey were designed to address weaknesses and ambiguities in the 1981 survey, and to probe certain areas in more detail.

⁷ The samples were balanced across five dimensions: 1) geographic region; 2) household income; 3) population density; 4) age of the panel member; and 5) household type (married; single male; single female.)

Table I lists, for each year, the number of screener cards and questionnaires mailed and returned.

TABLE I

The number of screener cards and questionnaires
mailed and returned in 1981 and 1987

	<u>1981</u>	<u>1987</u>
Screener cards mailed	55,000	55,000
Qualified respondents based on screener responses	1,767	1,583
Number of questionnaires mailed	1,600	1,583
Number of questionnaires returned	1,200	1,004
Number of respondents included in the analysis ⁸	1,186	991

⁸ A few respondents were removed from the samples because the funerals they helped arrange occurred outside the United States, or because their responses to two separate questions created an ambiguity as to the type of funeral they helped arrange.

III. Summary statistics

This section presents summary statistics based on the responses to the questionnaires. In a later section, econometric techniques are used to isolate more carefully the effects of the rule from the effects of other possible factors.

a. Types of funerals purchased

Table II contains, for 1981 and 1987, the number and proportion of funerals in each of four categories: open casket service followed by a ground burial; closed casket service followed by a ground burial; cremations; and all others (e.g., above ground entombment and immediate burials.)

TABLE II

The number and proportion of funerals
in various categories, 1981 and 1987

	1981		1987	
	<u>Number</u>	<u>Percent of Total</u>	<u>Number</u>	<u>Percent of Total</u>
Open casket	789	66.5%	641	64.7%
Closed casket	233	19.6%	160	16.2%
Cremations	130	11.0%	140	14.1%
Other	34	2.9%	50	5.0%
TOTAL	1186	100.0%	991	100.0%

In both years, a majority of funerals were in the open casket category, which comes closest to the usual description of a "traditional" funeral. According to the survey data, the proportion of funerals involving cremations rose from 11.0 percent in 1981 to 14.1 percent in 1987.⁹ Coincident with the increase in cremations was a decline in the proportion of funerals in the open and closed casket categories.

⁹ These figures are close to those published by the Cremation Association of North America ("CANA"). According to CANA, the cremation rate in the United States was 11.0 percent in 1981 and 14.9 percent in 1987. The similarity of these figures suggests that the two FTC sponsored surveys are representative of the national population.

b. Expenditures on funeral goods and services

Table III presents the average amount spent on funerals by the survey respondents for each year and for each of the four categories of funerals. The 1987 figures have been corrected for inflation so that the figures from the two years can be compared.¹⁰ The number of respondents included in this table is fewer than the number who returned the questionnaires because some respondents left blank the question that asked for the total amount spent on the recent funeral.

TABLE III

Average expenditures on various
types of funerals, 1981 and 1987
(1981 dollars)

	<u>1981</u>		<u>1987</u>		
	<u>Average Amount Spent</u>	<u>Number of Respond- ents</u>	<u>Average Amount Spent</u>	<u>Number of Respond- ents</u>	<u>Ratio of 1987 avg. to 1981 avg.</u>
Open casket	\$2618	593	\$2816	453	1.076
Closed casket	2339	176	2518	121	1.077
Cremations	990	89	1054	103	1.065
Other	2029	29	2276	39	1.122
TOTAL	\$2380	887	\$2483	716	1.043

Table III shows that the average amount spent on a funeral, after correcting for inflation, has increased from \$2380 to \$2483, an increase of approximately 4.3 percent. This relatively small increase in the average expenditure obscures the finding that, in each of the four individual categories, the average real expenditure increased by at least 6.5 percent. The smaller rate of increase in the overall average can be explained by the increase in 1987 in the proportion of cremations, which is the least expensive of the four categories of funerals.

¹⁰ The 1987 expenditure figures were divided by 1.281, which is the ratio of the consumer price index in December 1986 to the consumer price index in December 1980. December 1980 is the second month in the six month period covered by the 1981 survey; December 1986 is the first month in the six month period covered by the 1987 survey.

It appears clear that, in real terms, the purchasers of funerals spent more in 1987 than they spent in 1981. This finding contradicts what one would expect if the rule were causing consumers in 1987 to decline items that they previously purchased, and if the rule had increased the degree of price competition in the marketplace. Of course, these figures fail to isolate the effect of the rule from the effect of changes in other factors, such as the respondents' real income and level of education. Nonetheless, results from the multi-variate analysis, presented in Section IV of this report, confirm that real expenditures on funerals have increased even when the effects of other factors are held constant.

c. The purchases of various goods and services

Two objectives of the Funeral Rule are to prevent funeral providers from: 1) tying the purchase of one item to the purchase of another, and 2) forcing purchasers to select funeral packages. Packages are defined to be bundles of goods and services pre-selected by funeral providers that sell for a single price. Consequently, the rule requires funeral homes to prepare an itemized general price list which must list the goods and services available at the funeral home, and their itemized prices.¹¹ The rule also requires funeral providers to offer the general price list to purchasers at the outset of the arrangements discussions.

If the practice of bundling items together to force individuals to purchase items that they would prefer to decline was prevalent prior to the rule's implementation, and if the rule's itemization requirements effectively prevented funeral directors from engaging in that practice, then the proportion of funerals containing at least some items should be smaller in 1987 than in 1981.¹² Table IV contains the percentage of respondents who

¹¹ The rule does not prohibit funeral providers from offering packages. Funeral providers can offer packages provided they also sell funeral goods and services on an item-by-item basis. The rule does not require that the itemized prices bear any particular relation to the price of the package that includes those items. Funeral providers are free to price their individual items and their packages as they see fit.

¹² Another approach to examining the rule's impact would compare the proportion of package purchases in 1981 with the proportion in 1987. Unfortunately, the 1981 survey did not ask whether the funeral purchased

indicated in the questionnaire that the funeral home provided various goods and services in 1981 and 1987. The left side of the table provides the percentages for all of respondents in the samples; the right side of the table provides the percentages when the purchasers who selected cremations are deleted. The relevant sample sizes are in parentheses.

The figures in Table IV represent the number of respondents who affirmatively indicated on the questionnaire that the funeral included the item in question. Because some respondents who failed to answer the question would have arranged a funeral that included the item, the percentages in the table underestimate, to some degree, the true incidence of purchase in the samples.

The questionnaires for both 1981 and 1987 contained straight-forward questions regarding the purchase of caskets and embalming. Since few respondents left these questions blank, the percentages for these items should accurately reflect the true incidence of purchase.

The figures for the remaining items in Table IV are based on the responses to a lengthy table. For each item listed in the table (which listed 18 items in the 1981 survey and 21 items in the 1987 survey) the respondent was instructed to indicate whether or not the funeral home provided the item and, if so, the amount charged for that particular item. The proportion of consumers who did not indicate whether the funeral home provided the item is relatively high, varying from 13 percent (for removal of the body in 1981) to 66 percent (for urn in 1987.) Due to these missing answers, the figures in the table may substantially underestimate the true proportion of funerals that contained those items. Despite this drawback, I conclude that the 1981 and the 1987 figures can be compared because the proportion of respondents who failed to answer the relevant question changed little over time.¹³

was a package. The 1987 survey did contain such a question; approximately 31% of the respondents reported that they purchased a funeral package.

¹³ The non-response rate changed by more than five percentage points for only one of the items listed in Table IV (use of a chapel had non-response rates of 25.0% in 1981 and 31.1% in 1987.)

TABLE IV

The proportion of respondents who indicated that they purchased various items, 1981 and 1987

	<u>ALL RESPONDENTS</u>		<u>RESPONDENTS WHO PURCHASED CREMATIONS DELETED</u>	
	1981 (N=1186)	1987 (N=991)	1981 (N=1056)	1987 (N=851)
Caskets	91.7%	88.6%	98.2%	98.5%
Embalming	83.4%	80.9%	89.4%	90.0%
Outer burial containers	61.1%	54.5%	68.2%	62.3%
Urn	6.2%	12.9%	*	*
Other preparation of the body	62.0%	65.5%	61.6%	69.1%
Viewing of the body	73.1%	70.9%	79.2%	78.0%
Use of a chapel	52.8%	51.1%	53.5%	54.9%
Hearse	76.1%	75.6%	83.2%	83.9%
Limousine	44.2%	39.8%	48.5%	44.7%
Flower car	40.1%	40.1%	44.2%	46.0%

Based on the figures in the left side of the table, it might at first appear that purchasers in 1987 were less likely to select various goods and services than purchasers in 1981. Of the ten items in Table IV, eight have a lower incidence of purchase in 1987. Yet, the declines are in general quite small and the figures in the right of the table suggest that the trend has been driven by the increase in the percentage of cremations in 1987. When consumers who purchased cremations are deleted, the differences in the incidence of purchase over time show no apparent pattern.

In sum, the evidence from the two surveys indicates that purchasers of funerals that included a burial purchased approximately the same quantity of funeral goods and services in 1987 as purchasers of similar funerals in 1981. I conclude that the surveys do not provide evidence that the rule has

influenced the types of goods and services that individuals include in their funerals.¹⁴

d. The prices of individual goods and services

Both the 1981 and the 1987 surveys asked the respondents to indicate the amount charged by the funeral home for each individual good and service provided by the funeral home. Comparisons of the prices of individual items in the two years should be made cautiously due to a possible bias in the price figures.¹⁵ The Funeral Rule, which requires itemization, was in place in 1987 but not in 1981. Consequently, the itemized prices provided by respondents in 1987 should be representative of the prices in the population as a whole but the itemized prices provided by the 1981 respondents may not be. In fact, the 1981 prices would be biased downward if funeral homes that chose to itemize in 1981 also charged relatively low prices. To the extent that bias exists, one explanation for any measured increase in real prices is that the 1981 sample of itemized prices is biased downward while the 1987 sample of prices is not.¹⁶

With the preceding caveat in mind, Table V presents the average amount charged by funeral homes in each year for the items listed in Table IV. The numbers in parentheses are the number of respondents who provided the itemized price information. The 1987 prices have been deflated so that the prices from the two years can be compared. The right columns in Table V indicates the ratio of the 1987 price to the 1981 price. A ratio

¹⁴ One might challenge this statement by noting that the rule may have influenced the types of funeral goods and services purchased because it may have contributed to the increase in the proportion of cremations. However, the upward trend in the proportion of cremations began in the early 1970's, before the rule was promulgated, and the trend has not become more pronounced since 1984. According to the Cremation Association of North America, the cremation rate was 4.6% in 1970, 9.7% in 1980, and 14.9% in 1987.

¹⁵ While a bias may exist for individual prices, I see no reason why any bias should exist for the total amount spent on funerals.

¹⁶ The assertion that the 1987 prices are free of the bias described in the text presumes that all funeral homes itemize in accordance with the rule's requirements. If some homes in 1987 still do not itemize, and if those homes charge higher prices than those that do itemize, then the bias would still exist to some degree in 1987, but to a lesser extent than 1981.

greater (less) than one indicates that the real price of the item was higher (lower) in 1987 than it was in 1981.

TABLE V

	Average real prices for selected goods and services, 1981 and 1987		
	1981 Average Price	1987 Average Price	Ratio of the 1987 price to the 1981 price
Caskets ¹⁷	\$1010 (406)	\$1009 (283)	1.00
Embalming	131 (191)	149 (201)	1.14
Outer burial containers	398 (419)	415 (242)	1.04
Urn	136 (26)	112 (39)	0.82
Other prepara- tion of the body	107 (175)	83 (145)	0.78
Viewing of the body	132 (167)	150 (187)	1.14
Use of a chapel	101 (109)	119 (129)	1.18
Hearse	87 (231)	87 (245)	1.00
Limousine	70 (122)	91 (105)	1.30
Flower car	40 (112)	49 (94)	1.23
Services of the fun'l director	265 (215)	459 (251)	1.73

(1981 Prices; figures in parentheses are number of respondents who provided the relevant price)

These data suggest that real casket prices were virtually unchanged in 1987 compared to 1981. Figures compiled by the Casket Manufacturers of America indicate that the average wholesale price of caskets has increased steadily in real terms since 1981. The combination of constant retail prices

¹⁷ The 1981 average casket price is based on the 406 respondents who indicated that the casket price included the price of the casket only, i.e., that no other goods and services were included in the casket price. (Over 200 of the 1981 respondents indicated that the casket price included additional goods and services.) To make the casket prices for the two years comparable, the 1987 average casket price is derived from respondents who indicated that they received a fully itemized final statement, which should ensure that the casket price included no other goods and services.

and increasing wholesale prices is consistent with the oft-mentioned story that the rule's itemization requirements have induced funeral providers to reduce profit margins on caskets and increase profit margins on other goods and services.

That story also suggests the existence of upward pressures on the real prices of goods and services other than caskets. On the other hand, downward pressures would arise if the rule sufficiently reduced the cost of search and increased the degree of price competition amongst funeral homes. These competing forces suggest that the real prices of items other than caskets could have increased or decreased between 1981 and 1987.

Table V shows that the real prices of only two items (urn and other preparation of the body) were lower in 1987 than in 1981.¹⁸ The real price of a hearse was unchanged. The real prices of the other items included in the table increased, but only the increase in the price of the services of the funeral director was significantly higher in 1987.

By themselves, these figures cannot resolve whether the rule has caused prices for individual goods and services to be higher or lower in 1987 than they were in 1981. At first glance, the trend toward higher prices does not support the position that the rule has contributed to lower prices by reducing the cost of search and by increasing the degree of price competition in the marketplace. However, the increases are not statistically significant, the summary statistics fail to control for a number of important factors, and the 1981 prices may be biased downward. All that can be concluded is that the itemized price information contained in the two surveys do not provide evidence that real prices for individual funeral goods and services were significantly different in 1987 than they were in 1981.

In sum, the price and expenditure data have posed a puzzle. Table III shows that average real expenditures on funerals increased from 1981 to 1987. Simple logic dictates that some combination of higher real prices and/or an increase in the quantity of goods and services purchased must have occurred. However, a review of the summary statistics from the survey data cannot establish the degree to which those two explanations pertain.

¹⁸ These differences are not statistically significant.

e. The prevalence of various characteristics of purchasers and practices of funeral providers

This section presents information on respondents' shopping characteristics. Table VI contains the number and proportion of respondents in each year in various categories, listed down the left of the table.

TABLE VI

The number and proportion of respondents who fell into various categories, 1981 and 1987

	1981 (N=1186)		1987 (N=991)	
	Number	Percent of Total	Number	Percent of Total
Contacted more than one funeral home	85	7.2%	42	4.2%
Pre-arranged with the funeral home	274	23.1%	228	23.0%
Had no prior experience arranging funerals	395	41.6%	360	36.3%
Arranged the funeral alone	128	10.8%	109	11.0%
Went to the funeral home to make the arrangements	1029	86.8%	868	87.6%
Received price information "early" in the conference at the fun'l home ¹⁹	625	60.7%	587	67.6%

¹⁹ These figures are based on responses to question 27, which was virtually the same in both surveys. That question asked respondents to recall when they first received price information during the arrangements conference at the funeral home. If the respondent indicated that price

Two results from Table VI deserve mention. First, the incidence of shopping among funeral homes was actually lower in 1987 than it was in 1981.²⁰ This finding indicates that the rule did not foster an increase in shopping by making price information easier to obtain. Rather, it appears that shopping occurs infrequently in this market, and that the promulgation of the rule had no marked impact on shopping behavior.²¹

Second, the proportion of respondents who reported getting price information, either oral or written, "early" in the arrangements conference was higher in 1987 than in 1981.²² Multi-variate regression results, presented in Section IV, indicate that respondents in both 1981 and 1987 who reported receiving price information "early" had significantly lower total expenditures than consumers who did not. To the degree that the rule contributed to the increase in the proportion of purchasers who received price information early in their arrangements conferences, it may have contributed to lower funeral expenditures. To date, I have been unable to

information was given either at the outset of discussions or prior to the selection of a casket or other container he qualified for placement in the category "received price information early."

²⁰ The decrease is statistically significant at the 99% level of confidence.

²¹ I am aware of two other studies which also suggest that shopping behavior is rare in this market, and that it has not increased since the rule was promulgated. Jolson et al. ("The Marketing of Funeral Services: Past, Present and Future," Business Horizons 40 (March/April 1986) interviewed several funeral directors who indicated that phone inquiries were infrequent, and had not increased since 1984. An NFDA sponsored survey of funeral directors, conducted in late 1984, reported that funeral directors had received, on average, seven telephone inquiries since the rule went into effect. That translates to approximately one per month on average. Further, only 13% of the funeral directors indicated that the volume of telephone inquiries increased after the rule went into effect.

²² The difference is statistically significant at the 99% level of confidence.

isolate how much, if any, of the increase in the provision of "early" price information is attributable to the rule's impact.²³

f. The incidence of practices required by the rule

The Funeral Rule requires funeral providers, among other things: (i) to volunteer to individuals who call on the phone that price information is available over the phone; (ii) to provide price information over the phone to callers who request it; (iii) to offer purchasers of funeral goods and services a general price list at the outset of funeral discussions; (iv) to offer purchasers of caskets a casket price list prior to showing them the available caskets; (v) to offer purchasers of outer burial containers an outer burial container price list prior to showing them the available containers and (vi) to give purchasers a properly itemized final statement of the goods and services they selected at the conclusion of the arrangements conference. The responses to the 1987 survey provide information on the degree of compliance in all of these areas. This section presents those results. A later section uses multi-variate regression analysis to examine whether individuals who were treated in a manner that complied with the rule had different expenditures than those who were not treated in such a manner.

1. Compliance with the rule's phone provisions

The 1987 survey indicates that individuals who arrange funerals seldom use the telephone to discuss their funeral arrangements. When individuals used the phone to shop amongst funeral homes or to make funeral arrangements, the survey found that they generally received treatment that complies with the rule.

Only 9.2 percent (91 out of 991) of the 1987 respondents indicated that they telephoned the funeral home to discuss "funeral prices, terms, or

²³ One hypothesis I did explore is whether the rule's itemization requirements caused the information provided in 1987 to be of higher quality than the information provided in 1981. Suppose that the itemized price information provided in 1987 permits consumers to more easily select only those items that they desire and select less expensive alternatives. If that hypothesis is true, the negative relationship between the receipt of price information "early" and total expenditures should be stronger in 1987 than in 1981. The regression analysis did not support that hypothesis. Rather, it suggested that the negative relationship between receiving price information and total expenditures was no different in 1987 than it was in 1981.

conditions."²⁴ The rule requires funeral directors to tell those individuals, at the outset of the telephone conversation, that price information is available over the phone. The survey indicates that approximately 72 percent of the respondents who telephoned the funeral home recalled being told, at or near the beginning of the conversation, that price information was available over the phone.²⁵

The rule also requires funeral providers to furnish itemized price information over the phone when individuals request that information. The survey contained 82 instances in which specific price information was requested. In only 6.1 percent (5 out of 82) of those instances did respondents report that they did not receive the price information they requested.

Notwithstanding the relatively small sample sizes in areas pertaining to phone compliance, these results suggest a high level of compliance with the Funeral Rule's provisions regarding the provision of price information over the telephone.

The requirement that funeral directors must inform individuals who phone the funeral home that price information is available over the phone is intended to reduce the cost of obtaining useful price information from various funeral homes and to reduce the cost of obtaining detailed price information from the funeral home selected. Presumably, individuals who have this information would be more likely to save money by selecting funeral homes with lower prices, by choosing less expensive alternatives, and by declining items that were judged overly expensive. Multi-variate regression analysis does not support that presumption. According to that analysis, 1987 purchasers who telephoned the funeral home and received the rule-required disclosure did not spend different amounts on funeral goods and services than other respondents.

²⁴ That phrase was used in the questionnaire because it corresponds to the language in the rule that triggers the requirement that funeral providers mention that price information is available over the phone.

²⁵ Of the 91 consumers who phoned the funeral home, 46 indicated that the funeral director made the required disclosure, 18 indicated that the funeral director did not make the required disclosure, and 27 could not recall. Thus, of the 64 who could recall, 72% indicated that the funeral director made the required disclosure.

2. Compliance with the rule's general price list provision

The cornerstone of the rule is its requirement that funeral providers provide a written, itemized general price list to purchasers of funeral goods and services. According to the rule's Statement of Basis and Purpose, the provision of an itemized general price list should prevent consumer injury in several ways. First, purchasers under an unusual amount of emotional strain would be better able to select the funeral goods and services they most desire if written, itemized price information is available. Second, the general price list would alert consumers that they are not required to purchase a funeral package, that is, a combination of goods and services pre-selected by the funeral director that sells for a single price. Third, the disclosures on the general price list should deter funeral directors from falsely representing that certain items are required purchases. Lastly, the availability of written general price lists should benefit consumers who want to obtain price information from several funeral homes prior to choosing one.

The general price list must contain the prices of seventeen funeral goods and services cited in the rule and various disclosures which alert purchasers that they need only purchase the items they desire. Table VII shows the responses to the question, "At the meeting with the funeral director, were you shown a general price list?" That question was asked only to the 868 respondents who indicated that they went to the funeral home to make the funeral arrangements.

TABLE VII

Number and percentage of 1987 respondents who went to the funeral home and reported being shown a general price list

	<u>Number</u>	<u>Percent of total</u>
Shown a general price list	589	67.9%
Not shown a general price list	200	23.0%
Do not remember	64	7.4%
No answer	15	1.7%
TOTAL	868	100%

Table VII shows that roughly two-thirds of the respondents recall being shown a general price list during their arrangements conferences. Almost one in four respondents reported that they were not shown the document that is central to the rule.²⁶

The rule also requires that the general price list be offered to purchasers at the outset of discussions of funeral arrangements and prices. The survey asked respondents to recall when price information was first received during the meeting with the funeral director. Table VIII contains the responses to that question for the 589 respondents who also reported being shown a general price list.²⁷

²⁶ Further inspection of the respondents who were not shown a general price list reveals that 120 of the 200 received either a fully itemized final statement or written price information in a form other than the general price list. In other words, only nine percent (80 out of 868) of the respondents who went to the funeral home reported that they were not provided written, itemized price information of some kind. While forms of price disclosure other than the general price are not perfect substitutes for it, they should provide some useful information to purchasers. Presumably, the 120 respondents who received price information in forms other than the general price list were better able to make informed choices than the 80 who received no itemized price information.

²⁷ The questionnaire did not explicitly ask respondents to indicate when they were shown the general price list. This table presents the responses to question 27 (When did you first receive price information?) for the respondents who indicated that they were shown a general price list.

TABLE VIII

When price information was first received by the 1987
respondents who reported being shown a general price list

	Number	Pct. of those who received a a general price list <u>(N=589)</u>	Pct. of those who went to fun'l home <u>(N=868)</u>
At or near the beginning of the discussion	201	34.1%	23.2%
After discussion of funeral arrangements had begun but before the selection of a casket or other container	225	38.2%	25.9%
When the funeral arrangements were being finalized	63	10.7%	7.3%
At the very end of discussions after all decisions had been made	76	12.9%	8.8%
Don't remember/No answer	24	4.1%	2.8%

Since the rule requires funeral providers to offer the general price list at the outset of funeral discussions, a strict interpretation of Table VIII would conclude that the general price list was offered in a timely manner to individuals who went to the funeral home only one fourth of the time. Yet, the table also indicates that approximately half of the respondents (49.1 percent) reported that they were shown a general price list and that they first received price information relatively early in their arrangements conferences, that is, before the selection of a casket or other container.²⁸ Moreover, it should be noted that 60 percent of the respondents who

²⁸ The econometric analysis suggests that there is no link between the timing of the provision of the general price list and an individual's total expenditure on funeral goods and services. In other words, the analysis indicated that there is no difference in funeral expenditures between respondents who reported receiving the general price list at the outset of discussions and those who reported receiving the list "early" in discussions.

reported that they were not shown a general price list also reported that they received an itemized final statement and/or written price information in some other format.

In sum, the 1987 data indicate that compliance with the rule's general price list provision is neither very high nor very low.

3. Compliance with the rule's casket and outer burial container price information provisions

In addition to requiring a general price list, the Funeral Rule states that funeral directors must make itemized casket and outer burial container price information available to individuals who wish to consider purchasing those items. The rule provides funeral directors some flexibility in the manner in which they provide casket and outer burial container price information. A funeral provider would be in compliance with the rule if the itemized price information were: 1) contained on a separate pre-printed price list; 2) included on the general price list; or 3) contained in a binder or notebook available at the funeral home. Regardless of how the price information is presented, the rule requires that the itemized casket price information be provided prior to the viewing of the caskets, i.e., before the individual enters the casket viewing room, and that itemized outer burial container price information be provided prior to being shown the outer burial containers.

In the survey, a respondent could report that he received itemized casket or itemized outer burial container price information in two ways: by being shown a separate price list; or by being shown a general price list that included a listing of the relevant prices. Since there is another way that funeral providers can provide casket and outer burial container price information and still comply with the rule, the survey data do not provide as reliable a measure of compliance for those provisions as they do for the general price list requirement. Further, the rule's flexibility suggests that the survey data may provide downwardly biased measures of compliance in these areas.

a) Casket price information

Of the 868 survey respondents who reported going to the funeral home to make funeral arrangements, 579 (58.4 percent) indicated receiving itemized casket price information. Of the 787 respondents who reported going to the

funeral home and who reported purchasing a casket, 549 (69.8 percent) reported receiving itemized casket price information. Of those who reported being shown a separate casket price list, approximately 47% reported that they were shown the list prior to being shown the available caskets.

b) Outer burial container price information

Of the 868 survey respondents who reported going to the funeral home to make funeral arrangements, 443 (44.7 percent) reported receiving itemized outer burial container price information. Of the 632 who also reported purchasing an outer burial container, 379 (60.0 percent) reported receiving itemized outer burial container price information. Of those who reported being shown a separate outer burial container price list, approximately 65% reported that they were shown that list prior to being shown the available containers.

These data suggest that at least 60% to 70% of the purchasers who selected caskets and outer burial containers were provided itemized price information on those items. Because the survey may provide downwardly biased measures of the proportion of funeral providers who provide that information, the actual proportion of funeral providers who provided it could be somewhat higher.

4. Compliance with the rule's final statement provision

The rule requires funeral providers to give a purchaser an itemized final statement of the funeral goods and services he selected at the conclusion of his arrangements conference. If an individual chooses a funeral package, the final statement must indicate the goods and services included in the package and the total cost of the package. If an individual chooses funeral goods and services on an item-by-item basis, the final statement must give the itemized price of each component included in the funeral.

Table IX shows the number and proportion of the 1987 respondents who indicated that a written final statement was provided at the conclusion of the meeting at which funeral arrangements were made. The first two columns pertain to all 991 individuals in the sample; the second two columns pertain to the 868 respondents who indicated that they went to the funeral home when the funeral arrangements were made.

TABLE IX

Responses to question: Were you or someone else provided a final statement of goods and services selected? - 1987 observations

	<u>All Respondents</u>		<u>Respondents who went to the funeral home</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Yes, written statement was provided to respondent	510	51.5%	468	53.9%
Yes, written statement was provided to another	271	27.4%	232	26.7%
No, final statement was not provided	137	13.8%	116	13.4%
Don't remember	68	6.9%	50	5.8%
No answer	5	0.5%	2	0.2%
TOTAL	991	100%	868	100%

Table IX indicates that approximately 80 percent of the 1987 respondents reported receiving a written final statement and that approximately 13 percent did not receive a written final statement.²⁹ One should not infer from Table IX that, without the Funeral Rule, purchasers of funeral goods and services would not receive written statements containing the costs of their funeral arrangements. Fully 72.4% of the respondents to the 1981 survey indicated that they or someone else was provided a written final statement at the conclusion of their arrangements conferences. Thus, what can be said is that the proportion of purchasers who received a written final statement increased from approximately 72 percent in 1981 to approximately 80 percent in 1987, and that the increase is statistically significant.

²⁹ Not all of the respondents who failed to receive a final statement in 1987 failed to receive itemized price information. Of the 137 respondents who reported that they failed to receive a final statement, 36% reported received an itemized general price list and another 6% reported receiving written price information. Thus, 56% (80 out of 137) of the respondents who did not receive a final statement did not receive itemized price information in other forms.

To comply with the rule, the written final statement must include the prices of each component included in the funeral if the respondent purchased the funeral on an item-by-item basis. Table X shows the degree of detail contained on the written final statements for the respondents who indicated that they purchased their funerals on an item-by-item basis.

TABLE X

Degree of detail on the final statement for respondents who purchased funerals on an item-by-item basis in 1987

	<u>Number</u>	<u>Percent of total</u>
Did not receive a final statement	93	15.6%
Only the total price was indicated	6	1.0%
The total price was broken down into two categories	43	7.2%
The total price was broken down into three categories	56	9.4%
The total price was shown as well as the prices for each item and service included in the funeral	369	61.9%
Don't remember	29	4.9%
TOTAL	596	100%

Table X reveals that approximately 62% percent of the respondents who purchased funerals on an item-by-item basis received final statements that apparently complied with the Funeral Rule's itemization requirements. Further, of the final statements that were not fully itemized, a very small fraction lacked any itemization at all. On the other hand, the table indicates that approximately 16% of the respondents did not receive any final statement at the conclusion of the meeting with the funeral director.

5. Indexes of "compliance" with the Funeral Rule

To this point the discussion of rule compliance has focused upon various provisions of the Funeral Rule in isolation. The figures suggest that compliance with those separate provisions is relatively high in some areas but by no means perfect. However, to estimate the degree of overall compliance with the rule, it seems appropriate to consider the rule's various provisions simultaneously.

In this section several "compliance" indexes are derived. None of these indexes should be considered the ideal measure of compliance; each has its strengths and weaknesses and none incorporates all of the rule's provisions.³⁰ Rather, these various measures provide alternative approaches to analyzing the degree to which funeral providers are complying with various provisions of the Funeral Rule.

Each of the various "compliance" indexes answers the following question: what proportion of the respondents in the 1987 survey reported that the funeral director "complied" with the Funeral Rule? Indexes with more stringent requirements will provide lower estimates of "compliance." I will present the most stringent index of "compliance" first, and then proceed to the less stringent indices.

I will call the first index of "compliance" COMPLY1. Under this definition, a respondent qualifies for the "compliance" category if he indicated that: 1) price information was provided early in the arrangements conference; 2) price information was provided in writing; 3) a general price list was shown; 4) a properly itemized final statement was provided at the conclusion of the arrangements conference; 5) the funeral director did not misrepresent that embalming was a required purchase; and 6) the funeral director did not misrepresent that caskets were a required purchase for funerals that involved a cremation. Using this definition of "compliance", the survey responses indicate that:

³⁰ For instance, it is impossible to use the survey data to measure the degree of compliance with the rule's requirements that various written disclosures be included on the general price list and the final statement.

28% of the respondents (246 out of 868) received "compliance";
61% of the respondents (525 out of 868) received "non-compliance"; and
11% of the respondents (97 out of 868) fall into the ambiguous
category.³¹

The second index of "compliance", COMPLY2, is identical to COMPLY1 with one exception: the requirement that the respondent indicated that he received price information in writing is dropped. Thus COMPLY2 retains only those questions that are directly related to the rule's general price list, final statement, and misrepresentation provisions. Using this definition of "compliance", the survey indicates that:

31% of the respondents (267 out of 868) received "compliance";
58% of the respondents (514 out of 868) received "non-compliance"; and
11% of the respondents (97 out of 868) fall into the ambiguous
category.

The third index of compliance, COMPLY3, focuses on the two key documents required by the rule - the itemized general price list and the written final statement. Under this COMPLY3 measure, a respondent qualifies for the "compliance" category if he received an itemized general price list early in the arrangements conference, and he received a properly itemized final statement. Respondents who got both of these documents would seem to have received the crucial information regarding itemization that the rule was intended to provide. Using this definition of "compliance", the survey indicates that:

³¹ Inclusion in the "compliance" category, however defined, requires a respondent to answer a series of questions in a particular way. Respondents who left any one of those questions blank, who could not remember the answer to one question, or who inadvertently marked a non-compliant response would be excluded from the "compliance" category even if they actually received "compliant" treatment. For these reasons, all of the "compliance" indexes provided in the text are probably lower bounds for the actual proportion of respondents who received "compliant" treatment, however "compliance" is defined. To account for the ambiguity inherent in missing values and don't remembers, the text will distinguish between respondents whose responses clearly qualify them for the "non-compliance" category, and those whose missing values and/or don't remembers create an ambiguity as to whether they belong in the "comply" or "non-compliance" categories.

37% of the respondents (319 out of 868) received "compliance";
52% of the respondents (452 out of 868) received "non-compliance"; and
11% of the respondents (97 out of 868) fall into the ambiguous
category.

The central objective of the Funeral Rule is to provide itemized price information to purchasers. To better ensure that outcome, the rule requires both a general price list and an itemized final statement. To some degree, those two provisions are duplicative because they accomplish the same goal, to wit, the provision of itemized price information. The most serious rule violation arises when itemized price information is never presented, at any time, during the arrangements conference.³²

To identify those instances with the most serious rule violations, the final "compliance" index, COMPLY4, defines "compliance" as the receipt of either an itemized general price list or an itemized final statement and "noncompliance" as the receipt of neither. Using this definition, the survey indicates that:

80% of the respondents (698 out of 868) received "compliance";
12% of the respondents (100 out of 868) received "non-compliance"; and
8% of the respondents (70 out of 868) fall into the ambiguous
category.

The various "compliance" indices paint a mixed picture. The more stringent indices (COMPLY1-COMPLY3) suggest that upwards of 50 percent of the funeral providers failed to comply with one or more of the provisions of the Funeral Rule in 1987. While such a level of non-compliance is high, it does not mean that half of the funeral directors failed to provide purchasers with written, itemized price information. The final index of "compliance", COMPLY4, indicates that only 12% of the respondents reported

³² I do not mean to imply that the provision of an itemized final statement at the conclusion of an arrangements conference is a perfect substitute for the provision of an itemized general price list at the outset of the conference. Still, the provision of an itemized final statement should provide purchasers some opportunity to consider whether all of the items they selected are necessary, and whether less expensive alternatives might be available. My intention here is to identify those respondents who were never given access to itemized price information in any form during their arrangements conferences.

that they failed to receive any itemized price information during their arrangements conference.

The survey evidence suggests that funeral directors can improve their compliance with various provisions of the Funeral Rule. Nonetheless, the data do show that at least 80% of purchasers of funeral goods and services are receiving, in one form or another, written, itemized price information.

g. Conclusion to summary statistics

The survey evidence provides detailed pictures of the funeral market in 1981 and 1987. In both 1981 and 1987 approximately 65 percent of all funerals were "traditional", that is, an open casket service followed by a burial. In both years, the second most common type of funeral was a closed casket service followed by a burial, accounting for between 15 percent and 20 percent of all funerals. The survey data showed an increase in the proportion of cremations from 11 percent in 1981 to 14 percent in 1987, which is consistent with other data.

The average amount spent on funerals has increased, even after correcting for inflation. Overall, the average expenditure, in constant dollars, increased approximately 4.3 percent, and the average increase in each of the three categories mentioned above exceeded 6.5 percent. The survey data offer little conclusive evidence on the changes over time in the prices of individual goods and services because, by and large, the changes in itemized prices are not statistically significant. Finally, the survey data suggest that individuals have not made significant changes in the individual goods and services that they include in their funerals.

Shopping among funeral homes prior to making a selection is rare. In 1981 only 7.2 percent of the respondents reported contacting more than one funeral home, and that proportion fell to 4.2 percent in 1987. The proportion of respondents who reported that they had no previous experience arranging a funeral declined from 41.6 percent in 1981 to 36.3 percent in 1987. Finally, the proportion of funerals that included pre-arrangements with the funeral home was 23 percent in both years.

With respect to the provision of price information, the proportion of respondents who reported receiving price information "early" in their arrangements conferences increased from 61 percent in 1981 to 68 percent in 1987. Also, the proportion of respondents who reported receiving a written

final statement increased from 72 percent in 1981 to 80 percent in 1987. Those increases suggest that the rule may have contributed to timely provision of price information to purchasers. However, the results from a multi-variate econometric model, which are presented in the next section, provide no evidence that the rule has contributed to a decline in average funeral expenditures.

The 1987 survey data provide a mixed picture of the degree of compliance with the Funeral Rule. First, the data suggest that compliance with the telephone provisions is high. However, the data indicated that the rate of non-compliance with the Funeral Rule, when the definition of "compliance" is relatively stringent, may be as high as 50 to 60 percent. On the other hand, the data also indicate that only 12 percent of the respondents failed to receive either a written itemized general price list or a written itemized final statement, and some of those respondents reported that they received written price information in other ways. Thus, the survey indicates that the vast majority of funeral providers are making some itemized price information available to purchasers.

To this point, the discussion has not addressed one important question: Has the Funeral Rule had any effect on funeral expenditures? The next section focuses directly on that question using the results from an econometric analysis of the survey data.

IV. Econometric analysis to estimate the effect of the Funeral Rule

In this section the survey data are used to estimate the impact of the Funeral Rule on average funeral expenditures. Econometric techniques are used to control for factors other than the rule, such as income and education, that could also influence funeral expenditures.

The survey data offer two approaches to assessing the impact of the Funeral Rule on funeral expenditures. First, the respondents from 1981 and 1987 can be compared to see whether, *ceteris paribus*, the expenditures in the latter year were different from those in the earlier year. I will refer to this as the "time-series" approach. Since the 1987 respondents were covered by the rule and the 1981 respondents were not, the trend over time in expenditures provides one measure of the rule's impact. The primary drawback to this approach is that any estimate of the trend in expenditures over time cannot distinguish between the effect of the rule and the effect of changes in other factors that are not explicitly included in the analysis.³³

Second, the 1987 respondents can be used to examine whether average funeral expenditures of those who received the documents required by the rule, or who received "compliant" treatment however defined, were different from those who did not receive the rule-required documents, or who received less than "compliant" behavior, however defined. I will refer to this as the "cross-section" approach.

Before presenting the detailed findings, I discuss briefly the rationale for focusing on total funeral expenditures, and the assumptions underlying the statistical methodology. The following discussion pertains to both the time-series and the cross-section analyses.

a. Funeral expenditures is the relevant dependent variable.

The Statement of Basis and Purpose emphasizes that the rule's primary goal is to help individuals who may be under emotional stress and time pressures make more informed choices. Better informed individuals are less likely to purchase items they don't want and more likely to purchase less expensive items when lower priced alternatives are made available.

³³ Another issue that will need to be addressed in the rulemaking proceeding is whether compliance with the rule was sufficiently high in 1987 to gauge its effects.

Consequently, a careful examination of the total amount spent on funeral goods and services is one way to appraise the effects of the rule.³⁴

All of the results described in this section are based on a simple model in which the total amount spent on funeral goods and services (EXPEND) is the dependent variable. Each individual who provided a figure for the amount spent on funeral goods and services represents a separate observation.

The variables used to explain the dependent variable are called the independent variables. Since the primary objective is to identify the relationship between expenditures and rule-related events, such as the provision of a general price list, the set of independent variables necessarily includes rule-related variables. Yet, many other factors influence the total amount spent and the analysis incorporates several additional independent variables to control for these other effects.³⁵

The statistical approach used was ordinary least squares (OLS) regression. Under OLS, the dependent variable is assumed to be a linear combination of the independent variables plus an error term. In simplest terms, the econometric model is:

$$(TE)_i = a_i + \sum_{i=1}^n b_i X_i + e_i$$

³⁴ It would also be useful to examine whether the rule had any impact on the prices of the individual items included in funerals. However, possible biases in the survey data, which were discussed in the previous section, argue against using these data to conduct a detailed analysis of the changes over time in itemized prices. I see no reason why the surveys' figures on total expenditures would suffer from a similar, or any, bias.

³⁵ These other independent variables can loosely be described as "demand" and "supply" variables. Since both demand and supply factors are included as independent variables, the model is a reduced-form model, not a structural model. In a reduced form model, the coefficients on the variables capture the effects of both supply and demand, not just one or the other as would be the case in a structural model. For instance, one independent variable included in the analysis controls for the average size of funeral homes in the state in which the funeral occurred. The coefficient on that variable will estimate the combination of demand effects (e.g., purchasers in states with fewer and larger funeral homes may have different costs of searching among funeral homes) and supply effects (e.g., relatively large funeral homes may enjoy economies of scale and/or relatively greater market power) on funeral expenditures.

where, for each of the i observations, TE_i is total expenditures on the funeral, a_i is a constant term, the X_i 's are the independent variables, the b_i 's measure the change in total expenditures from a one unit change in the associated X_i , and e_i is a random error term, that is, the portion of total expenditures that cannot be explained by the observable independent variables and the constant term.

Many of the same independent variables are included in both the time series and the cross section analyses. Most of these variables are derived from responses given by the respondent on the questionnaire; others have been gathered from independent sources. Next, I introduce the independent variables that are common to both analyses, and briefly describe their expected effects on total funeral expenditures.³⁶

b. Independent variables common to both analyses

The independent variables used to explain a respondent's total funeral expenditure fall into five categories: 1) demographic variables; 2) variables to control for the type of funeral purchased; 3) variables describing the state in which the respondent resided; 4) variables that pertain to the characteristics of the funeral arranged by the respondent; and 5) variables to control for differences in state regulation of the funeral industry.

Demographic variables are included to control for the respondent's income (INCOME), degree of urbanization (CITYDUM), education (EDUCHS, EDUCCOLL), and age (AGE). I would expect respondents with higher incomes to have higher funeral expenditures. The relationship between urbanization and funeral expenditures could be positive or negative. On the one hand, respondents who live in a central city should be more likely to shop amongst several funeral homes. That shopping should increase competition amongst funeral homes and contribute to lower expenditures. On the other hand, prices in central cities may be generally higher than elsewhere. Finally, it is difficult to predict whether the education level and age of the respondent will be positively or negatively related to funeral expenditures.

³⁶ A complete list of the variables and their precise definitions can be found in appendix A.

Second, the type of funeral is controlled for by dividing funerals into four categories: open casket service followed by a burial (OPENBURY); closed casket service followed by a burial (CLOSURY); cremations (this is the excluded category so it is not included as a separate independent variable); and others (OTHERFUN.) I interpret the four funeral variables as a measure of differences in the quantity of funeral goods and services purchased. Since a cremation, which is the excluded category, is the least elaborate type of funeral, I expect the coefficients on OPENBURY, CLOSURY, and OTHERFUN to all be positive, with OPENBURY being the largest.³⁷ In addition, a variable is added to control for whether the funeral included the purchase of a casket (CASKDUM.)

Third, several variables are included to control for differences across states. These variables are different from those already discussed in that they are not unique to each respondent. Instead, all respondents in a particular state are assigned the values appropriate for that state. The state variables control for differences in the size of the average funeral home (SCALE), differences in wages in the funeral industry (REALWAGE), and differences in the proportion of dispositions in the state that involve cremations (PCTCREM). It is difficult to predict the relationship between funeral expenditures and the average sized funeral home in the state in which the funeral was purchased. On the one hand, states with larger funeral homes may have homes that are better able to exploit economies of scale and pass those efficiencies on to consumers as lower prices. Yet, on the other hand, states with larger funeral homes may have homes that enjoy some monopoly power, which would be related to higher funeral expenditures. A priori, one would expect individuals who live in states with higher wages

³⁷ Ideally, the analysis would also include variables to control for variations in the quality of the merchandise included in the funeral. Without explicit measures of quality, the analysis cannot determine whether higher expenditures represent higher real prices, better quality goods and services, or some combination of the two. The analysis controls for the four types of funerals defined above, but the data provide no basis for estimating differences in the quality of the merchandise included in a particular category. This is an obvious limitation to the analysis, but the limitation is common to studies that examine expenditures on (or prices of) items that vary in quality.

to have higher expenditures on funerals.³⁸ With respect to PCTCREM, it is possible that states with relatively high rates of cremation would have purchasers who are more aware of their alternatives. That increased awareness should enhance competition in the funeral market, which would lead to lower funeral expenditures. On the other hand, the PCTCREM variable may simply pick up differences in the ethnic and cultural backgrounds of the respondents, in which case its effect on expenditures is uncertain.

Fourth, variables are included to control for characteristics of the respondent that pertain directly to his funeral purchase. All of these variables are based on the responses to questions in the questionnaire. These variables control for whether the respondent had previous experience arranging funerals prior to this arrangement (PREVDUM), whether any specific arrangements had been made prior to the death of the deceased (ARNGEDUM), whether the death was sudden as opposed to expected (SDNDUM), whether the respondent arranged the funeral alone (ALONEDUM), whether the respondent reported that the cost of funeral arrangements was very important to his choice of a funeral home (IMCSTDUM), whether the respondent reported receiving a final statement at the conclusion of the arrangements conference (FSDUM), whether the respondent contacted more than one funeral home (SHOPDUM), and whether the respondent reported receiving price information, either oral or written, "early" in the arrangements conference (PINFERLY.) With the exception of SDNDUM and ALONEDUM, these variables should describe respondents who were more aware of their alternatives, less burdened by stress, and, consequently, better able to select only the items that they desire. Thus, I would expect

³⁸ The same argument applies to general price levels, which suggests that a variable should be included to account for differences in price levels across states. I gathered data on state consumer price levels for both the pre-rule and the post-rule period but decided not to include a state price level variable in the analysis for two reasons: 1) the state price level variable is highly correlated with REALWAGE, and so it would add little explanatory power to the regression; and 2) I could not find state price level data from a single source for both the pre-rule and the post-rule period. Thus, I would be unable to include the variable on state price levels in the analysis that compared respondents from the two surveys. Since a variable for differences in state prices is not included in the analysis, some of its effect will be picked up by the REALWAGE variable.

the coefficients on PREVDUM, ARNGEDUM, IMCSTDUM, FSDUM, SHOPDUM, and PINFERLY to be negative.

By contrast, respondents who were arranging funerals after a sudden death would likely be under greater stress than those who were arranging a funeral after an expected death. Under the assumption that increased levels of stress contribute to less informed and reasoned decision making, I would expect the sign on SDNDUM to be positive. A priori, it is not clear what the sign will be on ALONEDUM. On the one hand, respondents who arrange a funeral alone may experience more stress than those who have the help of others. To the extent that is true, the coefficient on ALONEDUM, like that on SDNDUM, would be positive. On the other hand, individuals who arrange a funeral alone may be removed from pressures to "spare no expense" on the funeral arrangements. In addition, ALONEDUM may serve as a proxy for families with relatively low wealth. In essence, the respondents who arrange a funeral alone may have fewer family members and friends to help them pay for the funeral. For these reasons, the coefficient on ALONEDUM may be negative.

Fifth, variables are included to control for differences in state regulations that pertain to the funeral industry. A priori, I would expect that respondents who live in states with information disclosure requirements similar to those specified in the Funeral Rule (REG1-REG3) to have lower funeral expenditures. Further, I would expect respondents who live in states that require funeral homes to maintain a chapel for services (REQCHAP) and an embalming room (REQPREP) to have higher funeral expenditures. These latter two variables should act, to some degree, as entry barriers to the funeral industry which would serve to reduce competition, increase costs, and increase expenditures.

The next sections present the detailed results from the regression analysis.

c. Cross-section results

The cross section analysis uses data from the 1987 survey to examine whether respondents who received the two key documents required by the rule, the written general price list and the written final statement, had different expenditures than respondents who did not receive those documents.

The rule's general price list requirement is intended to permit purchasers of funeral goods and services to purchase only those items that they desire. In addition, the general price list requirement is intended to make purchasers aware of alternatives, such as direct burials, that are less expensive than traditional funerals. If the general price list works in those ways, then, other things equal, one would expect individuals who receive a general price list to spend less on their funerals than individuals who do not receive a general price list.

The rule's final statement provision is intended to ensure that individuals who arrange funerals learn, prior to the funeral, the costs of the individual goods and services included in the upcoming funeral. In addition, the required disclosures on the final statement, like those on the general price list, inform consumers that embalming is not a required purchase in all instances, and that purchasers need only pay for those items selected. Consequently, I would expect the final statement to have an effect on funeral expenditures similar to that of the general price list. That is, other things equal, individuals who reported receiving a written final statement at the conclusion of their arrangements conferences would have lower expenditures on funerals.

A key additional independent variable is GPLDUM, which is a dummy variable that assumes the value 1 when the respondent reported that he was shown a general price list during the arrangements conference, and 0 otherwise. The coefficient on GPLDUM will measure the average difference in total expenditures between respondents who reported that they were shown the general price list and those who did not report being shown the list.

The only other independent variable included that was not already described is PACKDUM, which is a variable equal to one if the respondent indicated that he purchased a funeral package and zero otherwise. It is not clear whether packages should be more or less expensive than funerals purchased on an item-by-item basis.³⁹

³⁹ The 1981 survey did not ask respondents whether they purchased funeral packages. Thus, the variable PACKDUM can be included only for the analysis of the 1987 data and not for the analysis that compares 1987 with 1981.

Table XI presents the estimation results from the 1987 survey.⁴⁰ The results indicate that, after controlling for other factors, respondents who reported being shown a general price list spent no less on funeral goods and services than respondents who did not report being shown a general price list. Indeed, the results suggest that respondents who were shown a general price list spent approximately 7.0 percent more on funeral goods and services than those who weren't.⁴¹ This finding is surprising given the expectation that, ceteris paribus, a respondent who received a general price list would be better able to select only the items that he wanted and to select less expensive alternatives that may have been available. It appears that some combination of factors causes the receipt of a general price list to be associated with higher expenditures on funeral goods and services.⁴²

Another interesting finding is that, other things equal, respondents who reported receiving price information "early" in their arrangements conferences spent, on average, 8.2% less than those who did not report receiving price information "early."⁴³ That finding, which is statistically

⁴⁰ This regression was restricted to respondents who indicated that they went to the funeral home when the funeral arrangements were made. In addition, I have deleted the observations in which the respondent indicated that advance payments had been made to the funeral home. Since the survey did not include a question concerning the amount of the advance payments, I do not know whether the expenditure figure provided by those respondents includes or excludes the advance payments. After these deletions, the regression contain 585 observations.

⁴¹ In addition, the coefficient on GPLDUM is significant at the 95% level, which means that there is only a 1 in 20 chance that respondents who reported being shown a general price list actually spent the same amount on funeral goods and services as respondents who did not report being shown the general price list.

⁴² For example, individuals may be more likely to purchase additional items when they see the entire menu of available items and/or the preparation and use of general price lists may markedly increase a funeral provider's costs of doing business. The latter explanation is at odds with recent statements of funeral directors which indicated that the costs of complying with the rule have not been overly burdensome.

⁴³ The PINFERLY variable is based on a question different from the question used to define GPLDUM. PINFERLY equals one when the respondent indicated (in question 27) that he received, either orally or in

TABLE XI

Regression Estimates: 1987 Observations only
 Various rule provisions considered separately

Dependent Variable: EXPEND
 Mean of EXPEND: \$3,264

Variable Name	Coefficient	T-statistic	Mean of variable
age	-5.015083	1.275	49.4
income	.0048803	2.054	29978.63
citydum	-224.0051	1.960	0.297
educchs	38.86633	0.210	0.424
educcoll	12.37597	0.065	0.482
openbury	1296.391	5.170	0.644
closbury	1016.085	3.797	0.169
otherfun	776.0556	2.409	0.055
caskdum	1172.74	4.180	0.904
realwage	.0208987	0.695	15880.58
scale	-4.609702	1.679	125.939
pctcrem	-7.170377	0.965	12.884
prevdum	-109.4945	0.978	0.656
arngedum	-22.97513	0.161	0.161
sdndum	-5.113873	0.049	0.422
alonedum	-122.4188	0.772	0.125
imcstdum	-253.355	2.059	0.246
shopdum	-66.93711	0.257	0.041
fsdum	143.2137	0.998	0.839
pinferly	-265.021	2.384	0.687
gpldum	223.6554	1.954	0.691
packdum	61.09552	0.535	0.287
reg1	59.93124	0.401	0.436
reg2	3.013629	0.028	0.479
reg3	87.48497	0.616	0.569
reqchap	-134.1632	1.003	0.335
reqprep	160.5294	1.128	0.689
constant	1545.53	2.273	1.00

R² (adjusted) = 0.3141

N = 585

Note: t-statistics are expressed as their absolute values

significant, can be given two interpretations. The first assumes that the "early" provision of information causes individuals to become more aware of their options and, as a result, reduce their expenditures. Under this interpretation, one would conclude that the individuals who did not receive price information "early" would have spent less if they had received that information. The second interpretation posits that purchasers who intend to spend less on their funerals are also more likely to obtain price information early in the arrangements conference. Under this interpretation, PINFERLY is a proxy for individuals who planned to spend relatively less on their funerals. This second interpretation calls into question the prediction that the expenditures of those who did not receive price information "early" would have been lower if they had received that information.⁴⁴

In order to interpret the regression results properly, one must keep in mind precisely which groups are being compared. It should be emphasized that the positive, significant coefficient on GPLDUM (or, the negative, significant coefficient on PINFERLY) means that, all other things equal, respondents who were shown a general price list (or who received price information early) spent more (less) on funeral goods and services.

It is also possible to define one group as the respondents who reported getting both a general price list and price information "early" in their arrangements conferences (both GPLDUM and PINFERLY equalling 1) and another group as respondents who reported getting neither a general price list nor price information "early" (both GPLDUM and PINFERLY equalling 0.) In some sense, the first group defined above received "high" quality price information and the second group received "low" quality price information. To compare the expenditures of these two groups, the coefficients for PINFERLY and GPLDUM must be added together. Summing those

writing, price information "early" in the arrangements conference, that is, prior to the selection of a casket. GPLDUM equals one when the respondent indicated (in question 28) that he received a general price list at some time during the arrangements conference.

⁴⁴ The variable IMCSTDUM has a similar interpretation and it, like PINFERLY, has a significant negative coefficient. To the degree that IMCSTDUM captures the price sensitivity effect, the second interpretation of the negative coefficient on PINFERLY becomes less convincing.

coefficients indicates that respondents who got "high" quality information spent no less than respondents who reported getting neither a general price list nor price information "early."⁴⁵ Thus, I cannot reject the hypothesis that these two groups of individuals spent the same amount on funeral goods and services, i.e., that the receipt of "high" quality information had no effect on expenditures.⁴⁶

In sum, the evidence on the relationship between funeral expenditures and the receipt of price information is somewhat puzzling. Table XI suggests that, ceteris paribus, being shown a general price list is related to higher expenditures and the receipt of price information "early" is related to lower expenditures. Further, combining those two results suggests that individuals who were shown the general price list "early" in the discussions spend no more than individuals who get neither a price list nor price information "early." What does seem clear is that the 1987 survey data do not furnish support for the hypothesis that the receipt of a general price

⁴⁵ Summing the coefficients indicates that individuals who received a general price list and price information "early" spent, on average, \$44 less than individuals who received neither. However, that coefficient is not statistically different from zero.

⁴⁶ Simply adding the coefficients implicitly assumes that the relationship between funeral expenditures and being shown a general price list is the same whether the list is shown early in the arrangements conference or late in the arrangements conference. A separate analysis that permitted the relationship to differ depending on when the price list was shown yielded results qualitatively similar to those described in the text: purchasers who were shown a general price list "early" in their arrangements conference spent no less than purchasers who received the price list later in the conference or who were not shown a general price list at all. In addition, that analysis indicated that purchasers who received price information, either oral or written, "early" in their arrangements conferences but who were not shown a general price list did spend significantly less than purchasers who were shown a general price list relatively "late" in the arrangements conference or who were not shown a general price list at any time during the conference. Another analysis suggested that the negative relationship between the receipt of price information "early" and funeral expenditures holds for both oral price information and written price information (where the written price information is something other than a general price list.)

list is related to significantly lower expenditures on funeral goods and services.⁴⁷

With respect to the final statement, the variable of interest is FSDUM, which equals one if the respondent reported receiving a written final statement at the conclusion of the arrangements conference and zero otherwise. If the receipt of a final statement allowed individuals to reduce their expenditures on their arrangements, then the coefficient of FSDUM would be negative. Table XI shows that the coefficient on FSDUM is positive, not negative, although it is not significantly different from zero. One cannot reject the hypothesis that individuals who receive a final statement spend the same amount on funeral goods and services as those who do not get that final statement.⁴⁸ In sum, the survey data does not provide evidence that respondents who receive written final statements have different funeral expenditures than individuals who do not receive a written final statement.

Table XI also suggests that: 1) respondents with higher incomes spent more on their funerals; 2) respondents who live in central cities (CITYDUM) spend less on their funerals; and 3) respondents who indicated that the cost of funeral arrangements was very important to their selection of a funeral home (IMCSTDUM) spent less on their funerals. Interestingly, the results suggest no relationship between funeral expenditures and making specific

⁴⁷ Regression analysis was also used to examine whether respondents who were shown itemized casket and outer burial container price information spent less on those items than respondents who were not shown itemized price information. The analysis could not detect a significant relationship, either positive or negative, between the price of caskets and the receipt of itemized casket price information. Interestingly, the analysis detected a positive, significant relationship between outer burial container prices and the receipt of itemized price information for that item.

⁴⁸ The variable FSDUM equals one if the respondent reported receiving a written final statement. FSDUM does not distinguish between properly and improperly itemized final statements. When FSDUM is restricted to properly itemized final statements, under the assumption that individuals cannot reduce their expenditures unless the final statement is properly itemized, the coefficient on FSDUM becomes negative but it is still not significantly different from zero.

arrangements with the funeral home in advance (ARNGEDUM.)⁴⁹ The analysis could not detect any relationship between funeral expenditures and the selection of a funeral package (PACKDUM.)⁵⁰

Somewhat surprisingly, the analysis suggests that, *ceteris paribus*, individuals who received a general price list spent about 7.0 percent more than those who did not, and individuals who received a final statement spent an insignificant amount more than those who did not. Yet, it may be the case that the rule serves to decrease expenditures only when its important provisions - timely provision of an itemized price list, provision of a properly itemized final statement, and the absence of oral misrepresentations - are complied with simultaneously.

To examine that hypothesis, a separate multi-variate regression was used to see whether, *ceteris paribus*, individuals who received "compliance" with the Funeral Rule spent less (or more) money than those who did not receive "compliance." Respondents qualify for the "compliance" category if (i) they received a general price list early in their arrangements conference, i.e., before the selection of a casket or other container; (ii) they received a properly itemized final statement, i.e., fully itemized if they purchased the funeral goods and services on an item-by-item basis and in writing if they purchased a package; and (iii) they did not report being told that embalming and/or a casket was a required purchase.⁵¹ Of the respondents who

⁴⁹ Recall that the analysis deleted respondents who indicated that they made advance payments to the funeral home. Approximately one fourth of the respondents who made arrangements in advance with the funeral home indicated that they also made advance payments to the funeral home. When those respondents are included in the analysis, there is still no statistically significant relationship between funeral expenditures and making specific arrangements in advance with the funeral home.

⁵⁰ One might argue that it is inappropriate to include the PACKDUM variable in a regression trying to assess the impact of the general price list for the following reason. If the general price list informs purchasers that they need not choose a package, and if they use that information to select less expensive itemized funerals, then part of the effect of the general price list will be captured by PACKDUM. However, that concern does not appear to pertain because a separate regression that excluded PACKDUM yielded results very similar to those in Table XI.

⁵¹ This is the COMPLY2 index from the earlier section of this report.

reported going to the funeral home when arrangements were made, 31 percent qualify for the "compliance" category.

Table XII presents the multi-variate regression results. The variable of interest is COMPLY, which equals one when a respondent qualifies for the "compliance" category defined above and zero otherwise. The results indicate that the respondents who fell into the "compliance" group did not spend less than those who did not qualify for that group.⁵²

To summarize, multi-variate regression analysis was used to try to discern the relationship, if any, between certain provisions of the Funeral Rule and funeral expenditures in 1987.

A priori, one would expect that respondents who reported that they received the rule required documents (general price list, final statement) would be better informed as to their options and, as a result, spend less on their funeral arrangements. The analysis does not support that expectation.

Ceteris paribus, respondents who reported that they were shown a general price list did not spend less on funeral goods and services than respondents who did not receive the general price list. In fact, the analysis suggests that respondents who received a general price list had higher funeral expenditures than those who did not receive a general price list. With respect to the final statement the analysis is not conclusive but suggests that respondents who received that document did not have lower expenditures than those who did not. Similarly, respondents who qualified for the "compliance" category had expenditures no lower than those who did not.

I conclude that the 1987 survey results provide no support for the position that, other things equal, individuals who receive the rule-required documents use the information contained in those documents to reduce their funeral expenditures.

⁵² Table XII indicates that respondents who received "compliant" treatment spent, on average, approximately \$200 more than those who did not. However, the coefficient is not statistically different from zero.

TABLE XII

Regression Estimates: 1987 Observations only
 Various rule provisions combined into COMPLY

Dependent Variable: EXPEND
 Mean of EXPEND: \$3,264

Variable Name	Coefficient	T-statistic	Mean of variable
age	-4.225767	1.078	49.4
income	.0048822	2.051	29978.63
citydum	-230.8604	2.018	0.297
educhs	6.663285	0.036	0.424
educoll	-21.05124	0.110	0.482
openbury	1268.904	5.068	0.644
closbury	1000.927	3.745	0.169
otherfun	715.0697	2.228	0.055
caskdum	1232.326	4.408	0.904
realwage	.0199613	0.662	15880.58
scale	-4.343009	1.581	125.939
pctcrem	-6.416434	0.862	12.884
prevdum	-113.3509	1.011	0.656
arngedum	8.913796	0.063	0.161
sdndum	-11.09993	0.106	0.422
alonedum	-150.7483	0.952	0.125
imcstdum	-244.9336	1.983	0.246
shopdum	-50.34001	0.193	0.041
pinferly	-328.0313	2.646	0.687
comply	195.7789	1.576	0.311
packdum	46.19053	0.403	0.287
reg1	42.07953	0.281	0.436
reg2	-13.54495	0.124	0.479
reg3	92.53604	0.653	0.569
reqchap	-111.6792	0.834	0.335
reqprep	157.9041	1.107	0.689
constant	1748.755	2.581	1.00

R^2 (adjusted) = 0.3111

N = 585

Note: t-statistics are expressed as their absolute values

d. Time-series results

One would expect that the Funeral Rule's information requirements would, other things equal, cause funeral expenditures to decrease. Yet, Table III showed that real average funeral expenditures increased from \$2380 in 1981 to \$2483 in 1987 (figures are in 1981 dollars.) That finding should not be interpreted as evidence that the Funeral Rule contributed to higher expenditures because the simple comparison fails to control for a myriad of factors that could explain the higher expenditures. For instance, the 1987 respondents may have had higher expenditures because they had higher real incomes than the 1981 respondents.

In this section, econometric analysis is used to examine whether the higher real expenditures in 1987 can be explained by observed differences in the respondents from the two years. The econometric model resembles that used for the analysis of the 1987 data alone. However, instead of using the observations from only one year, the observations from the two years are pooled together. As in the earlier analysis, the dependent variable to be explained is total expenditures on funeral goods and services. Most of the independent variables are the same as those included in the cross section analysis.

The crucial independent variable included in the time series analysis is the dummy variable D , which is assigned the value one when the observation is from 1987 and the value zero when the observation is from 1981. The coefficient on the variable D will measure the trend in expenditures over time after controlling for the variation in all of the other independent variables.

It would be incorrect to conclude that the coefficient on the variable D must be positive because real funeral expenditures were higher in 1987 than in 1981. That result is not assured because the higher real expenditures could have been caused by any number of observed changes. How, then, should one interpret the coefficient on the variable D ? If the changes in the observable variables (income, degree of urbanization, etc.) from 1981 to 1987 fully explain the increase in average real expenditures, then there would be nothing left for the time trend variable D to pick up and its coefficient would be zero. Thus, if the coefficient on D is not significantly different from zero, one could conclude that average funeral expenditures

were not significantly different in 1987 than they were in 1981 after controlling for factors that help explain funeral expenditures. On the other hand, a positive (negative) and significant coefficient on D would indicate that average funeral expenditures were higher (lower) in 1987 after controlling for a host of other factors.

Table XIII presents the results from a multi-variate regression that includes observations from both 1981 and 1987.⁵³ The key variable D has a positive significant coefficient, and the value of the coefficient suggests that average real expenditures were approximately 9.0 percent higher in 1987 than they were in 1981.

The positive, significant coefficient on D does not mean that the Funeral Rule has caused real expenditures to increase. The data simply indicate a definite trend toward higher real expenditures on funerals. To explain that trend, one would need to identify ways (other than those already included in the analysis) that the 1981 respondents were different from the 1987 respondents. One of those differences, but not the only difference, is that only the 1987 respondents were covered by the Funeral Rule.⁵⁴ Nonetheless, the data make it more difficult to conclude that the Funeral Rule has led to a reduction in funeral expenditures.

In sum, the results indicate that real funeral expenditures are approximately 9.0 percent higher in 1987 than in 1981, even after controlling

⁵³ Note that events that pertain solely to 1987, such as the receipt of a general price list, cannot be included in this analysis. In order to pool the observations from both years together the analysis must include variables that existed in both years. In addition, note the addition of the variable VISITDUM (equal to one if the respondent went to the funeral home to when the arrangements were made and zero otherwise.) The results described in the text do not change when the analysis is restricted to respondents who went to the funeral home when the arrangements were made.

⁵⁴ Some other factors, which cannot be controlled for given the data available, could be: the 1987 respondents have greater wealth than the 1981 respondents; the 1987 respondents have different religious and cultural backgrounds than the 1981 respondents; and the costs of providing a funeral, other than those associated with complying with the rule, have increased dramatically.

TABLE XIII

Regression Estimates: 1987 and 1981 Observations

Dependent Variable: EXPEND
 Mean of EXPEND: \$2452 (1981 dollars)

Variable Name	Coefficient	T-statistic	Mean of variable
age	-.9914064	0.538	49.402
income	.003969	2.682	22940.79
citydum	-144.3532	2.581	0.269
educchs	197.1439	2.309	0.398
educcoll	179.6443	2.078	0.495
openbury	884.044	7.298	0.654
closbury	635.1937	4.921	0.184
otherfun	400.1886	2.447	0.041
caskdum	1003.016	7.394	0.911
scale	-2.226538	1.857	122.166
realwage	.0071691	0.417	13506.16
pctcrem	-11.64551	3.200	11.307
prevdum	37.28208	0.699	0.621
visitdum	203.4806	2.458	0.899
arngeum	-1.573803	0.024	0.165
sdndum	29.76964	0.595	0.440
alonedum	-174.7449	2.282	0.121
imcstdum	-266.8576	4.527	0.239
fsdum	25.47034	0.424	0.776
shopdum	59.81148	0.559	0.057
reg1	74.53161	1.001	0.278
reg2	93.26554	1.819	0.495
reg3	-24.28488	0.407	0.460
reqchap	-62.41495	0.881	0.219
reqprep	29.93902	0.523	0.644
d	221.1531	3.753	0.441
constant	647.6859	2.064	1.00

R^2 (adjusted) = 0.3127

N = 1476

Note: t-statistics are expressed as their absolute values

for a host of factors.⁵⁵ That result strongly suggests that the Funeral Rule has not contributed to a general reduction in funeral expenditures by making price information more available.

One drawback to the time series analysis presented to this point is that it fails to account for the fact that, prior to the Funeral Rule's enactment, states had different regulations regarding required itemized price disclosures. Some states had extensive disclosure requirements, others had moderate disclosure requirements, and others had no disclosure requirements. Failing to control for those differences may have prevented the analysis from measuring the true effect of the Funeral Rule. Regulations that require funeral providers to make price information more readily available might, in fact, contribute to lower funeral expenditures. But, since states had differing levels of regulation prior to the rule's enactment, one would expect the impact of the Funeral Rule to differ depending on the status of those state regulations. Specifically, the rule's impact should be strongest in states that, prior to the rule, did not require funeral providers to give purchasers itemized price information, and weakest in states that, prior to the rule, already required itemized price disclosures. The earlier analysis, because it failed to distinguish between these states, may have been unable to detect the true effect of the rule.

To test this hypothesis, I divided states into four categories: those with high disclosure requirements in both 1981 and 1987 (HIGH); those with more disclosure requirements in 1987 than in 1981 (MORE); those with a moderate level of disclosure requirements in 1981 that remained unchanged in 1987 (SOME); and those with no disclosure requirements in either 1981 or

⁵⁵ It is impossible to distinguish between "demand" effects caused by the rule that would increase expenditures from "supply" effects that would increase expenditures. A demand effect would exist if purchasers selected more funeral goods and services as a result of receiving the information required by the rule. I would note that this effect was not ruled out in the rule's Statement of Basis and Purpose, but it does betray the basic premise that without the rule consumers would be at the mercy of the funeral director whose incentives are always be to sell more, not fewer, funeral goods and services. A supply effect would exist if compliance with the rule increased funeral providers' costs significantly, and those costs were passed on to consumers as higher prices. Yet, recent statements by funeral directors suggest that the costs of complying with the rule are not overly burdensome.

1987 (NO.) Based on the discussion above, I would expect the rule to have the strongest impact on respondents from the NO states and the smallest impact on respondents from the HIGH states. Since the analysis reveals a general upward trend in funeral expenditures, this hypothesis would be confirmed if the upward trend were smallest in states that had no disclosure requirements prior to the rule and largest in states that had extensive disclosure requirements prior to the rule.

The empirical results did not confirm the hypothesis. In particular, the proportionate increase in average funeral expenditure was largest for the respondents who lived in the NO states. The theory predicted just the opposite, i.e., that the increase would be the smallest in the NO states. This finding lends further support to the conclusion that the Funeral Rule has not contributed to a decrease in expenditures on funeral goods and services.⁵⁶

e. Conclusion to econometric section

The primary purpose of the Funeral Rule is to ensure that individuals who purchase funeral goods and services are aware of their options, aware of their costs, and aware that they need only purchase the goods and services they desire. In theory, the increased awareness should reduce the likelihood that individuals will purchase goods and services that they don't want, and increase the likelihood that they will become aware of and select lower priced alternatives.

This section assessed the effect of the Funeral Rule by analyzing its relationship to total funeral expenditures. Two approaches were used. First, the 1987 survey results were analyzed to see if, other things equal, respondents who received the two documents required by the rule had lower expenditures than respondents who did not receive those documents. The results indicated that individuals who received a general price list did not spend less than those who did not get the list. In fact, the analysis suggests a positive relationship between being shown a general price list and

⁵⁶ One could also use these state categories to examine whether, prior to the rule's implementation, purchasers in states with greater levels of regulation had lower expenditures than purchasers in states with lesser levels of regulation. On that issue, an analysis of the 1981 observations alone suggests that average expenditures were not lower in states with greater levels of regulation.

funeral expenditures. Moreover, individuals who received a final statement spent about the same amount on funerals as individuals who did not get a final statement. When the general price list and the final statement were combined into a "compliance" measure, the results again suggested no statistically significant differences. I conclude from these results that there is no evidence that individuals who received the documents required by the rule spent less on their funerals than individuals who did not. If anything, the results suggest just the opposite, that respondents who received the documents actually had higher expenditures.

Second, the observations from the two surveys were combined to see whether, other things equal, the rule's implementation in 1984 was related to a general reduction in funeral expenditures. Again, the results did not confirm the theory. The analysis indicated that respondents in 1987 had significantly higher real expenditures on funeral goods and services even after controlling for a number of factors. The strong, significant result suggests that it is unlikely that the rule contributed to a decrease in funeral expenditures.

In sum, both the cross-section and the time-series analysis do not support the conclusion that the Funeral Rule has been associated with a decrease in funeral expenditures.

APPENDIX A

Definitions of variables included in regressions

The data sources are in parentheses. Dummy variables equal one when the prescribed conditions exist, and zero otherwise. BLS refers to the 1981 survey; RS refers to the 1987 survey. Numbers after BLS and RS refer to the question numbers in the relevant survey.

- EXPEND:** total amount spent by respondent for goods and services provided by the funeral home (BLS - 32; RS - 34a.)
- AGE:** age of respondent (Market Facts demographics)
- INCOME:** current income of respondent's household (Market Facts demographics)
- CITYDUM:** dummy =1 if respondent resides in the central city of a SMSA (Market Facts demographics)
- EDUCHS:** dummy =1 if respondent graduated from high school but did not attend college (Market Facts demographics)
- EDUCCOLL:** dummy =1 if respondent attended at least some college (Market Facts demographics)
- OPENBURY:** dummy =1 if respondent arranged a funeral with an open casket service followed by a burial (BLS - 9; RS - 9)
- CLOSBURY:** dummy =1 if respondent arranged a funeral with a closed casket service followed by a burial (BLS - 9; RS - 9)
- OTHERFUN:** dummy =1 if respondent arranged a funeral that was not OPENBURY, CLOSBURY, or a cremation (BLS - 9; RS - 9)
- CASKDUM:** dummy =1 if the respondent reported that he purchased a casket for the funeral (BLS - 31,37a; RS - 35a,40)

- SCALE:** (Deaths - Cremations)/(# of funeral homes)
 This variable is defined by state; respondents who reside in the same state are assigned the same value. Deaths by state are from the National Center for Health Statistics: Advance Report of Final Mortality Statistics, various issues. Cremations by state are from figures published by the Cremation Association of America. The number of funeral homes in a state is the number of establishments with payroll, Census of Service Industries (1982) and Bureau of the Census County Business Patterns (1985.)
- REALWAGE:** Average salary (payroll divided by the number of salaried employees) in the funeral industry in the state in which the respondent resides.
 This variable is defined by state; respondents who reside in the same state are assigned the same value. The payroll and number of salaried employees figures are from Census data for SIC 726 (Funeral Homes and Crematories.)
- PCTCREM:** percentage of all dispositions that were cremations in the state in which the respondent resides.
 This variable is defined by state; respondents who reside in the same state are assigned the same value. State cremation figures from Cremation Association of America; state death figures from National Center for Health Statistics: Advance Report of Final Mortality Statistics.
- PREVDUM:** dummy =1 if the respondent reported having previous experience arranging funerals (BLS - 10; RS - 10)
- VISITDUM:** dummy =1 if the respondent reported going to the funeral home when the arrangements for the funeral were made (BLS - 25; RS - 25)
- ARRNGEDUM:** dummy =1 if the respondent reported that specific arrangements had been made with the funeral home prior to the deceased's death (BLS - 14; RS - 13)
- SDNDUM:** dummy =1 if the respondent reported that the death was sudden (BLS - 8; RS - 8)

- ALONEDUM:** dummy =1 if the respondent reported that he made the arrangements for the funeral alone (BLS - 5; RS - 5)
- IMCSTDUM:** dummy =1 if the respondent reported that the cost of funeral arrangements was very important to his choice of a funeral home (BLS - 23; RS - 24)
- FSDUM:** dummy =1 if the respondent reported receiving from the funeral home a final statement of the goods and services selected (BLS - 29; RS - 32)
- SHOPDUM:** dummy =1 if the respondent reported contacting more than one funeral home (BLS - 18; RS - 19)
- PINFERLY:** dummy =1 if the respondent reported receiving price information "early" in the arrangements conference at the funeral home (BLS - 27; RS - 27)
- GPLDUM:** dummy =1 if the respondent reported receiving a general price list during the arrangements conference at the funeral home (RS - 28)
- PACKDUM:** dummy =1 if the respondent indicated that he purchased a funeral package (RS - 31)
- COMPLY:** dummy =1 if the respondent received a general price list early in the transaction & he received a properly itemized final statement & he was not told any misrepresentations regarding the required purchase of embalming or caskets (RS - 27,28,31,32,32a,39,52)

- REG1:** dummy =1 if the respondent resides in a state that requires funeral directors to prepare one or more price lists. 1981 data based on survey of state laws published by the Continental Association of Funeral and Memorial Societies; 1987 data based on FTC survey of state laws.
- REG2:** dummy =1 if the respondent resides in a state that requires funeral directors to display casket prices on or in the caskets on display. 1981 data based on survey of state laws published by the Continental Association of Funeral and Memorial Societies; 1987 data based on FTC survey of state laws.
- REG3:** dummy =1 if the respondent resides in a state that requires funeral directors to provide consumers with an itemized bill or final statement at the conclusion of the arrangements conference. 1981 data based on survey of state laws published by the Continental Association of Funeral and Memorial Societies; 1987 data based on FTC survey of state laws.
- REQCHAP:** dummy =1 if the respondent resides in a state that requires funeral homes to have a chapel or other room for services. Data for both years based on FTC survey of state laws.
- REQPREP:** dummy =1 if the respondent resides in a state that requires funeral homes to have a preparation (embalming) room. Data for both years based on FTC survey of state laws.
- D:** dummy =1 if the observation is from 1987