

# Business Day

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The New York Times: Hank Young, Michael Shaver

Joel Hyatt, left, founder of Hyatt Legal Services, predicts that Hyatt's Lawplan will have 500,000 individual subscribers by year end. Warren Feldman, a Long Island attorney, does prepaid work for Nationwide Legal Services.

## Legal Advice: \$6.75 a Month

By TAMAR LEWIN

Montgomery Ward sells clothing, bicycles, televisions and now, for \$6.75 a month, basic legal services: a simple will, document review, unlimited telephone consultations with a lawyer and a discount on more complicated matters such as divorces.

Amway — which peddles soap, vitamins and other products — recently started offering a similar legal package, called the Ultimate Legal Network, for \$160 a year. And Hyatt Legal Services offers the \$10-a-month Lawplan, for holders of Citibank credit cards.

Prepaid legal-services plans, a product that barely existed 10 years ago, suddenly are being seen as a great marketing opportunity.

About 17 million Americans are covered by some sort of legal-service package, most of them by plans provided by unions or organizations to which they belong. But most middle-income Americans still do not have lawyers. Dozens of different concerns, including retailers, banks and legal clinics, are scrambling to carve out a piece of that market — mostly by selling their services directly to the individuals who will be covered, in contrast to the old-style group plans

paid for by unions or employers.

"Until about four years ago, all the action was in the unions, but now the financial services companies, insurance companies and all kinds of other businesses are interested," said Alec Schwartz, executive director of the American Prepaid Legal Services Institute, a nonprofit group connected to the American Bar Association.

But several uncertainties surround the prepaid plans. There is the matter of whether they are a form of insurance, subject to extensive state regulation in New York, New Jersey and Connecticut such plans are generally regulated by the state insurance departments, but in all three states some plans may be sold by non-insurers.

More fundamentally, some consumer and legal experts wonder whether such plans, which must be high-volume operations to be profitable, offer good legal advice, especially when they move beyond routine matters. In many of the plans, all but the simplest legal questions incur extra costs.

### Profitability Is Uncertain

Finally, for both the sponsorgroups and the participating lawyers, there is a lingering question about just how profitable legal-services plans will be.

But there is no question that the plans are quickly gaining momentum. "The market is expanding rapidly," said William Bolger, executive director of the National Resource Center for Consumers of Legal Services, a trade group in Washington. "But it's going to be a few more years before everyone who wants a prepaid legal-services plan will have been offered even one package, much less a choice of plans."

Until 1977, when the Supreme Court opened the way for advertising by lawyers, the very idea of a national prepaid legal-services plan was unthinkable. Indeed, the first-generation plans were local operations in which unions or employers hired a few lawyers to provide workers with wills and advice on family or consumer problems.

### A Fast-Growing Segment

While many unions and employers still offer those plans and group plans still cover the most people, the fastest-growing plans are the ones being sold to individuals.

"We're over the first hurdle, the question of whether this idea is going to work, and we're into the phase of figuring out how to market it," said Mr. Schwartz of the legal services institute. "It's not like selling hamburgers. It's more like consumer educa-

## How Two Legal-Service Plans compare

### Prepaid Legal Services Inc.

**Cost:** About \$16 a month  
**Subscribers:** More than 300,000  
**Features of coverage:**

■ For each new legal matter, a half-hour consultation with lawyer of subscriber's choice to discuss a will or other legal matter. (Client is reimbursed for 100 percent of the lawyer's customary fee.)

■ For defending lawsuits, costs of up to \$5,000 the first year, increasing \$5,000 a year to 8, maximum of \$25,000 the fifth year.

■ For defending tax matters, up to \$5,000 for attorney or accountant.

■ For automobile-related matters, "reasonable" fees ranging from \$250 in connection with losing a driver's license, to \$20,000 or more in connection with a fatal automobile accident.

### Montgomery Ward/Signature Group

**Cost:** \$6.75 a month  
**Subscribers:** About 200,000  
**Features of coverage:**

■ For each new legal matter, a one-hour in-person consultation with a lawyer assigned by the plan.

■ Unlimited telephone or mail consultations with that lawyer.

■ Review of legal documents up to six pages in length.

■ Preparation of a simple will

■ Letters or telephone calls by the lawyer on the client's behalf, as may be necessary to resolve a matter.

■ Reduced rates on uncontested divorces, real estate closings and other matters, with a \$50-an-hour ceiling on fees.

tion on how and when people should use lawyers."

Prepaid Legal Services Inc., a publicly traded company based in Ada, Okla., is the oldest and biggest of the companies selling to individuals — and one of the few that allows members to use any lawyer they want.

"I think choosing your own lawyer is as important as choosing your own doctor," Hariand Stonecipher, the founder and chairman of the company, said. "If you're being sued, an unknown voice on the other end of the phone may not be very reassuring."

### Doubling of Sales Anticipated

Prepaid has about 150,000 people in 22 states selling the plan door-to-door and at gatherings of their friends and neighbors. Prepaid's revenues were nearly \$20 million last year, and Mr. Stonecipher expects more than double that this year.

The Amway Corporation also uses person-to-person contacts by almost 8 million distributors to sell its plan. Last May, Amway distributors in four states began offering packages ranging from the \$160-a-year family plan — covering free wills, three hours of in-person consultation, unlimited telephone consultations, document review and reduced rates on other services — to the \$500-a-year executive plan, which covers many business matters as well.

Amway, like Montgomery Ward and others, pays local lawyers to provide the actual legal advice that its 10,000 members ask for. "At least half of our members are our own distributors," said Henry Emrich, the coordinator of the plan, who is planning to expand it nationwide.

Most of the other new plans, including those developed by Montgomery Ward and Hyatt Legal Services, are selling their services by mail, sending solicitations to millions of credit-card holders. Montgomery Ward is probably the largest of the direct-mail plans, although others in the industry dispute the retailer's claim that it has 200,000 subscribers. The Signature

Group, Montgomery Ward's financial services subsidiary, sends the four million pieces of mail every three months to the store's credit-card holders, and according to Nancie E. Poulos, the general manager of the plan, about 1 percent sign up. Mailings will be nationwide by September, she said.

### Founder Predicts Rapid Growth

Hyatt Legal Services' two-month-old Lawplan is signing up about 10,000 Citibank credit-card holders a week, according to its founder, Joel Hyatt. And the first mailings have gone out to holders of Firestone credit cards. By the end of the year, he predicts, Lawplan will have 500,000 individual subscribers drawn from the mailing lists of banks, department stores and oil companies.

The A.F.L.-C.I.O.'s more than 13 million members, meanwhile, are about to get another kind of legal-services package, known as a "free plan" — in effect a group-buying arrangement — under which certain lawyers will offer members a 30 percent discount on fees. The plan will cost neither the A.F.L.-C.I.O. nor its members any money. Such free plans pose a threat to the profit-making organizations that sell pay-m-advance plans. But those organizations say they are not worried.

"Historically, free plans start out nicely and then, since they don't have money to spend on promotion and advertising, people forget about them and they fade away," Ms. Poulos of Montgomery Ward said.

People who pay for individual plans tend to use them a lot. Indeed, more than 20 percent of Montgomery Ward's subscribers use the plan each month, Ms. Poulos said. "We've had very good utilization on wills and consumer problems and family-related problems such as divorce, child support or a kid in trouble. People use these attorneys not only for legal questions, but as a resource for advice on things like what to do with a lump-sum retirement plan."

But skeptics point out that advice is only as good as the lawyer giving it. "It's not a good value, even at a few dollars a month, if you're assigned to a lawyer who has no expertise in the area you're concerned with and no incentive to spend the time to research it," said a partner at a large New York law firm, who asked not to be named.

### No Easy Measure

While there is no easy way to measure the quality of lawyering, most plans do try to gauge client satisfaction.

"One of the things we look at, on a monthly basis, is the cancellation rate of people using each law firm," Ms. Poulos said. "We can tell pretty quickly where there's a problem. The No. 1 complaint people have about lawyers, in our plan and elsewhere, is that they don't return phone calls. Our subscribers get a toll-free number to call if there's a problem, and the lawyers know we take complaints very seriously, so I think they're especially careful to be responsive to our subscribers."

Still, when it comes to quality control, the prepaid plans of legal clinics such as Hyatt Legal Services or Jacoby & Meyers may have an edge over plans that assign the work to outside lawyers, a point they make on their own behalf.

"The best quality control is having your own delivery system, made up of people you know and have trained," Mr. Hyatt said.

Gail Koff, a founding partner of Jacoby & Meyers, made a similar assessment. But both she and Mr. Hyatt must be measured in their criticism of networks of outside lawyers, for Hyatt's Lawplan uses such a network in areas where it has no offices and some of Jacoby & Meyers's lawyers are part of the Montgomery Ward network.

### Relying on Private Practices

While large, prestigious corporate law firms generally shun prepaid



Nancie E. Poulos, general manager of Montgomery Ward's direct-mail prepaid legal service.

legal-services clients, such clients can be a boon to small general practices. In Los Angeles, for example, the four lawyers at Fazio & Fairchild do little but work for their 8,000 Amway clients, 2,000 Montgomery Ward clients and other prepaid clients. Christopher Fairchild said the office handles about 100 telephone calls a day, which in turn generate about 25 wills, 20 or 30 letters on legal matters and 10 documents to review.

According to Warren Feldman, 8 Long Island lawyer who does prepaid work for Nationwide Legal Services, a publicly traded New York-based company, and for several union and employer plans, the key to handling prepaid clients is a highly automated, well-managed office.

"Clients are suspicious right from the beginning with this kind of program," said Mr. Feldman, whose firm, Feldman & Kramer, has eight lawyers in Hauppauge, L.I., and Manhattan. "You have to give them better service than a traditional law firm would. And we can. If a client wants 8 will, our computers give him 8 range of possible clauses that's much wider than what a lawyer going through the form books would find. The downside is that any mismanagement leads to a losing situation."

For the participating lawyers, who are paid a dollar or two a month for each prepaid client assigned to them — even if the client never calls — there is still some doubt about how profitable prepaid plans will be. The answer will depend on how often customers use the services and how often they bring in other work, such as divorces or real estate closings, for which they typically pay an additional \$50 or \$60 an hour.

"I don't know yet if prepaid legal services is going to be a real good business, a good business or even a marginal business," Ms. Koff said. "We know from our offices that are in the Montgomery Ward plan that people seem to use it for a lot of consumer questions that are frustrating from a legal point of view. If someone wants to collect \$300 from the dry cleaner who ruined their dress, and meanwhile they've lost the receipt, that's a hard thing to handle in a cost-effective way. I can tell you that lawyers will go out of business if they're getting lots of questions like that."