

plan business, and a member of the Association of Mutual Plan Fund Sponsors. During the past year I have also acted as coordinator of the efforts of the association in connection with the legislation which was proposed by the Securities and Exchange Commission.

I come before you today to tell you why we believe that the SEC recommendation to abolish the front-end load, and with it the contractual plan, should be rejected.

The contractual plan, which evolved in the early 1930's, represents a method of offering mutual fund shares to investors of moderate means who are interested in investing relatively small sums of money on a regular basis. To meet the heavy costs of offering and administering these plans out of the relatively small sums of money invested periodically and to compensate the salesman for the very considerable amount of time he spends in explaining and selling the plan, sponsors of contractual plans borrowed the sales charge structure generally applied to investment type life insurance; namely, the front-end load. It should be noted that even with the front-end load, most plan sponsors still lose money on a plan during its first year. The expense of front-end costs was recognized back in 1940 by the Congress that adopted the Investment Company Act. The report of the Senate Committee on Banking and Currency with respect to that act stated that the provision for the 50-percent-front-end load was made in recognition of the heavier initial expense incurred by sponsors in the sale of contractual plans.

Contractual plans are a very attractive investment program for a number of reasons. They provide a definite investment goal of a fixed amount; for example, \$2,000, \$3,000, or \$5,000. They can be started for as little as \$20 and continued with payments of as little as \$10 each month, while purchases of mutual fund shares pursuant to so-called voluntary or level load plans usually require much larger payments. The contractual plan investor can reinvest his capital gains dividends and ordinary income dividends without additional sales charges, while many so-called voluntary plans only permit capital gains dividends to be reinvested without sales charges, but impose a sales charge on reinvestment of ordinary income dividends.

Contractual plans provide flexibility in that payments may be made on schedule, accelerated, or postponed, all without penalty.

Mr. KEITH. Excuse me, Mr. Chairman.

Mr. Moss. Mr. Keith.

Mr. KEITH. Is it invariably true that the contractual plan investor can reinvest his capital gains without additional sales charge?

Mr. KOSTMAYER. Invariably, Mr. Keith.

Mr. KEITH. Is it a matter of law?

Mr. KOSTMAYER. I would like to ask Mr. Roach.

Mr. ROACH. It is a matter of mechanics, sir. In the periodic investment plan it is a very formal plan, and it simply in its very nature includes the right and does include the right to invest both capital gains dividends and distributions. There is no provision for a payout in the nature of the plan, you see. There is nothing to be paid to the investor. It is all to be reinvested. That is the nature of the plan.

Mr. KEITH. But is it not within the realm of possibility, as is the case with many of the voluntary plans, there could be a varying policy.