

Mr. KOSTMAYER. Our thesis, Mr. Keith, that I want to develop here, is that our problem is with the front-end load and the necessity to compensate the salesman at the beginning, which compensation based on reinvestment of dividends would not in fact accomplish, but this is certainly something that we can look into.

Mr. KEITH. But if you are trying to build a career sales force, which you might have to resort to if the SEC has its way, and if you could, perhaps as life insurance companies do, hire people on a salary to start them out and keep them in the field, and recapture it from the charges against the reinvestment of dividend income or capital gains; you might have some plus factor there.

Mr. KOSTMAYER. It certainly would be some plus factor.

Mr. KEITH. Thank you, Mr. Chairman.

Mr. Moss. You may proceed.

Mr. KOSTMAYER. Thank you. All without penalty, and do not lapse in the sense that a life insurance contract may lapse. The underlying shares are redeemable at full value on any market day. In addition, the planholder has the valuable right to withdraw up to 90 percent of the then current liquidation value of the mutual fund shares held under his plan, and later to reinvest an equivalent amount without paying any sales charge at all.

Finally, and, most significantly, in my experience, the front-end load by itself is a very positive feature of the contractual plan. The sales charge and cost structure and the fact that early liquidation of a plan will probably result in a loss is explained by the salesman to the investor and is clearly and prominently disclosed in the prospectus which all prospective planholders receive, and they are required by sponsors to acknowledge this receipt in writing. The penalty feature of the front-end load encourages the investor to continue his payments and to save and invest systematically.

In my opinion the elimination or substantial modification of the load might well discourage investment persistency, thus destroying the contractual's utility to the investor. The tremendous popularity of the contractual plan is evidenced by the fact that over 25 percent of the nearly 4 million mutual fund shareholders at the end of 1966 were holders of contractual plans. This is no surprise, in view of the unique benefits the contractual plan offers and the highly profitable results which have been achieved for the large majority of investors.

These results are set forth in detail in the statement of Mr. Rowland A. Robbins which Mr. Roach has filed with you. Permit me to refer you to a pamphlet entitled "The Origin and History of the Contractual Plan," published by our association and prepared under the direction of our former chairman and counsel, the late James M. Landis, who had been Chairman of the Securities and Exchange Commission and dean of the Harvard Law School, and the 1966 supplement to that pamphlet, both of which were also filed with you by Mr. Roach. I now also offer for your files the 1967 supplement to that pamphlet, which has just been prepared and which contains more recent and comprehensive data.

(The supplement referred to may be found in the committee files.)

The several statistical studies in the 1967 supplement demonstrate beyond question that by far the largest percentage of investors in contractual plans have realized very substantial profits from their in-