

Before the SEC bill was introduced in Congress, members of the Association of Mutual Fund Plan Sponsors asked Benson & Benson, Inc., of Princeton, N.J., to conduct a survey to determine what proportion of planholders who terminated in the early years of a plan at a loss really did so due to financial stress, and how many terminated merely because they chose to put the money to some other use. We asked Prof. Herbert Arkin, chairman of the Statistics Department of the Bernard M. Baruch School of Business and Public Administration in New York, to establish the criteria for this survey before it was undertaken and to analyze it for us afterward.

The summary results of this report and analysis are most illuminating. They show that only some 45 percent of those who liquidated early at a loss can properly be included among those who were forced to terminate because of financial circumstances. As Professor Arkin calculates it in the sample in this particular survey, this amounted to only some 4½ to 5 percent of all contractual planholders who initiated plans within the period studied. The next paragraph shows that in a different survey group the figure came to 8 percent.

The industry has recognized that measures should be taken to minimize early plan terminations and consequent losses, but the SEC's proposal to abolish contractual plans, with the consequent denial to millions of people of the benefits of such plans, is certainly no remedy at all. The remedy is to be found in the screening of prospective planholders in order to be sure that purchasers of contractual plans understand, and are capable of achieving, the discipline required during the early years to keep up their payments. The remedy is to be found in devising methods of promoting persistency and of reducing the numbers of those forced to redeem in the early years. Members of the industry have instituted programs along these lines which I would like to describe briefly to you.

Each member of this Association of Mutual Fund Plan Sponsors insists that every applicant for a contractual plan answer a series of questions designed to determine for himself whether the contractual plan is in fact a suitable investment medium to meet his financial and personal circumstances and whether, in view of his other commitments, he considers himself able to meet the schedule of payments he undertakes to make. The investor confirms in writing his understanding that he will incur a loss if he discontinues his plan in the early stages at certain times and under certain circumstances, and that he must take into account his financial ability to continue his plan through periods of low price levels.

Each member of this association gives the plan purchaser an absolute right, within 30 days after the acceptance of his application, to cancel the transaction and obtain a refund of the entire amount of his initial payment. This right is made clear in a letter sent by the sponsor company to every plan purchaser something that you will not find in any other part of the financial world.

Some companies go further and provide that if an investor does not make his second payment within 60 days after its due date, he will be given another opportunity to terminate his plan and obtain a refund of the entire sales charge he has paid.

I referred earlier to the fact that under a plan instituted by one plan sponsor, First Investors, 69 percent, almost 70 percent of a group