

Q-8. A specific objection to the front end-load is that people have been forced to redeem in the early years of their plan at a loss to pay unavoidable hardship expenses arising from illness, unemployment, or death. What percentage of planholders have been forced to liquidate for hardship reasons? How many of these have liquidated at a loss? What is the aggregate loss sustained by such persons in a typical twelve month period?

A-8. Benson & Benson, Inc., of Princeton, New Jersey, have conducted a survey, referred to in my testimony before the Sub-committee, which contains some information that is informative in connection with your question. Professor Herbert Arkin, Chairman of the Statistical Department of the Bernard W. Baruch School of Business and Public Administration, established the criteria for this survey before it was undertaken and analyzed it for us afterwards. The report was designed to determine what proportion of planholders who terminated at a loss in the early years of the plan did so for reasons of hardship.

The result of the Benson & Benson survey and analysis show that only some 45% of planholders who liquidated at a loss can properly be included among those who were forced to liquidate for hardship reasons. In the test period which Professor Arkin used these amounted to only $4\frac{1}{2}\%$ to 5% of all contractual planholders who initiated their plans within that period. We have applied Professor Arkin's figures to a broad group of some 17,000 accounts started by four different sponsors in 1951 through 1953, and our study shows that of the approximately 18% of those accounts which had terminated with losses as of December 31, 1966, only some 8% constituted persons who were forced to liquidate for hardship reasons.

In the period for which these 17,000 accounts were considered, the aggregate loss sustained by all persons who terminated with losses was \$240,000. Applying Professor Arkin's factor of 45%, this would mean aggregate losses of \$108,000 in that entire period for those planholders who were forced to liquidate, or an average of \$79.00 for each such account which was terminated with a loss. The figures set forth above relate to planholders who were forced to liquidate for hardship reasons and who suffered a loss. We do not have any comparable statistics with respect to planholders who may have been forced to terminate their plans due to financial hardship and who have nonetheless profited from their plans. As I mentioned in my testimony, there is available to all planholders the right to withdraw up to 90% of the current liquidation value of the mutual fund shares held under their plans and subsequently to reinvest an equivalent amount without paying any sales charge at all. As a result, if a person suffered a financial hardship and had profited from his contractual plan investment, he could take full advantage of the 90% withdrawal right and have at least as much money available to meet that financial emergency as he had originally invested, and perhaps significantly more. To the extent that contractual planholders with profits terminate their plans due to financial hardship rather than taking advantage of the withdrawal privilege, this may reflect a choice on the part of those planholders to terminate their investment programs for some other unrelated purpose, although we have no statistics in this regard.

You asked us to furnish you the aggregate losses sustained by persons who terminated due to hardship in a typical 12-month period. We have examined the records of one leading contractual plan sponsor which issued 13,265 plans in 1965. By December 31, 1966, 281 such plans had terminated with losses of \$62,200.00. Applying Professor Arkin's factor of 45%, this would mean that 126 plans were liquidated due to hardship reasons, with aggregate losses of \$28,000.00 which represents under 1% of the plans considered.

Q-9. How can prospective purchasers of mutual fund plans be made effectively aware of the existence of level load voluntary plans so that they can compare the relative merits of contractual and voluntary plans?

A-9. The prospectuses used by all contractual plan sponsors of which we are aware include at some point, either in the body of the prospectus of the sponsor or in the prospectus of the investment company whose shares underly the contractual plan and which usually accompanies the sponsor's prospectus, a description of the voluntary plan offered with respect to the shares of that mutual fund. For instance, I enclose a prospectus of my company, First Investors Corporation, with respect to the shares of Fundamental Investors. You will note that