on page 1 of the First Investors prospectus there is a reference to, and on page 3 of the Fundamental Investors prospectus there is a detailed description of, the systematic share accumulation account, which is the voluntary plan offered by Fundamental Investors.

This practice of furnishing to contractual planholders in the prospectus which must be delivered to them a description of the voluntary plan with respect to the shares of the same mutual fund goes far beyond practices of which we are aware in other businesses. For instance, as former Postmaster General Day testified before this Subcommittee, 3 states have savings bank life insurance which is offered without the use of agents and relates sales charges.

No one requires that the agents offering regular life insurance policies with the full front-end load include in the literature delivered to the prospective purchasers any reference at all to the availability of savings bank life insurance in those three states, or any reference to the availability of term life insurance as an alternative to the whole life insurance product which is being sold.

Q-10. What is the median loss sustained by contractual planholders who liquidate at a loss? What would the median experience of this group have been if they had invested in voluntary plans?

A-10. We have examined the records of the 17,000 accounts opened by 4 sponsors in 1951 and 1953 which are referred to above and we find that the median loss sustained by holders of those accounts who liquidated at a loss in the period from December 31, 1966 was $114.00.

You asked if we could inform you of the median experience of such a group of contractual planholders if they had invested in voluntary plans. Unfortunately, I find it impossible to furnish an answer which would be informative. As I indicated before the Subcommittee, we believe that voluntary plans are not truly comparable to contractual plans. They are quite different vehicles. Most important in this regard is the fact that holders of voluntary plans, without the incentive created by the front-end load, have much poorer records of persistency than do holders of contractual plans. Our studies indicate, for instance, that some contractual planholders in some periods have been 10 times as regular in making payments as have voluntary planholders with respect to the shares of the same mutual fund. As a result, if the people who had purchased the 17,000 contractual plan accounts to which I have referred had instead commenced to voluntary plan programs, it is almost certain that they would have made far fewer payments on those programs than they had made on the contractual plan programs. It is therefore impossible to prepare any kind of meaningful statistics.

My associates and I very much appreciated the opportunity to appear before the Subcommittee of which you are a member. Please tell us if there is any further information which we may be able to furnish to you in connection with the hearings.

Sincerely,

JOHN H. KOSTMAYER.

Mr. Moss. The committee will now stand adjourned. We will have no further questions for you. The committee will adjourn now to meet again at 3:00 this afternoon in the same room, at which time Mr. Robert M. Loeffler, vice president, Investors Diversified Services, will be our first witness.

The committee is now adjourned.

(Whereupon, at 12:30 p.m., the committee adjourned, to reconvene at 3 p.m., the same day.)

AFTERNOON SESSION

Mr. STUCKEY. The committee will come to order.

This afternoon we will hear the witness and a statement of Mr. Robert M. Loeffler on behalf of the Investors Diversified Services, Inc.

If you would like, you can summarize your statement and have it entered into the record if there is no objection.