

of younger investors. They lack the cash necessary for lump sum investment, but desire to build their resources through the systematic investment of a portion of their monthly income in equity securities.

From our experience we were convinced that a front-end sales charge would be necessary to enable our salesmen to reach customers in this market. The purpose of the front-end sales charge is to provide the initial sales compensation necessary to enable the salesman to work with investors whose monthly investment is so small—the average is only about \$30.00—that the regular sales charges would be inadequate. Before deciding to offer an accumulation plan with a front-end load, IDS weighed all of the competing objectives: the objective of the customer to pay the lowest feasible sales charge and to minimize his potential losses in the event of early termination; the objective of the salesmen to receive adequate compensation; and the objective of the company to make a profit. We concluded that it would be possible to satisfy—at least in part—all of these objectives by modifying the contractual plan then standard in the industry.

Under existing law, contractual plans involving periodic payments can include an initial sales charge of up to 50% of the first 12 monthly payments, and substantially all do.

IDS decided to offer a plan with an initial sales charge, not of 50%, but of 20% with the difference spread over the next three years' payments. Thus the IDS plan has a sales charge of 20% of the first year's payment, 18% of the 2nd and 3rd years' payments, 7% of the 4th year's payment, and 4.2% of the remaining payments. These plans are designed to extend over a 12½ year period and the overall sales charge is 8%.

If an IDS planholder, for any reason, or for no reason, wants to terminate his plan in its first sixty days, or is over a month late in making his second payment, the plan automatically terminates and all of his payments, including the sales charges, are refunded. To insure that these plans are not sold where a regular mutual fund investment would be feasible, IDS will not accept an application involving monthly payments of over \$100.00.

We have had only limited experience with our version of the front-end sales charge. Thus far, however, our confidence in its soundness seems justified. From October 1, 1965 to December 31, 1966, 58,251 accumulation plans were sold. Of these plans, 3,048 or 5.2% were cancelled and the full amount of the customers' payments refunded. Of the remaining 55,203 plans, 1,398 or only 2.5% have been terminated and 53,805 or 97.5% have remained active.

Section 16 of the Bill Relating to Contractual Plans

Section 16 of the Bill would amend Section 27 of the Investment Company Act to prohibit the so-called front-end load on installment payment plans for the accumulation of fund shares.

If this proposal becomes law, it would mean the end for the IDS plan. We have studied the impact of the proposal. We estimate that with our 20% front-end load, and IDS plan must be in force for three years before IDS recovers its costs and begins to make a profit. If the SEC's proposal were in effect, IDS could never make a profit on this operation.

Although IDS experience is limited and the persistency so far has been very good, we are not happy that some loss, however small, has been borne by any of our customers. IDS believes that close supervision of sales practices, strict adherence to its sales policies, and the design of the plan itself have contributed greatly to minimizing losses due to the front-end load.

When IDS began the distribution of its accumulation plan it believed that the potential benefits to the public far outweighed any potential harm. This Committee must weigh the same question. We urge you not to abolish a system of distribution necessary to make the mutual fund form of investment available to a large market for which it is particularly suitable.

IDS PROFITS FROM MUTUAL FUND OPERATIONS

The SEC would like to separate the economics of the mutual fund business into two parts—investment management and distribution. It says the industry charges too much and makes too much from management, and charges too much for distribution, although it concedes that we make little, if anything, from the latter function.

This distorts the picture. When the mutual fund business is viewed as it really is—an integrated operation—a vastly different picture is seen.