

mony before the Subcommittee of Mr. John H. Kostmayer. The questionnaire consisted of two questions, as follows:

1. When you liquidated a mutual fund investment plan in 1966, did you do so because you *chose* to put this money to some other use, or because circumstances *required* you to raise cash?

☐ Chose to

☐ Circumstances required

2. Did you have any other financial resources which you could have used instead of liquidating your investment plan?

☐ Yes, had other resources

☐ No, did NOT have other resources

Among the respondents, 55% said that circumstances required them to redeem. Of these, 45% said they had no other resources. The fact that the remaining 10% had other resources does not mean, as the plan sponsors' suggest, that as a practical matter these investors did not have to redeem. When required by circumstances to raise cash, a person who has only a small amount of emergency funds may properly feel that he cannot liquidate them in order to maintain his contractual plan investment which is subject to the risks of the market. Similarly, many of the 44% who stated that they "chose" to redeem may have inferred from the wording of the question that they had had a real choice in determining whether to liquidate their emergency funds or to redeem their certificate. We doubt that even the plan sponsors believe that that is a realistic choice. Yet their questionnaire did not take this factor into consideration.

Thus it appears that a large majority of those who redeem uncompleted contractual plans at a loss are forced to do so by reason of changed financial circumstances.

(b) *How many of these have liquidated at a loss?*

Other statistics of the plan sponsors indicate that 17% (or about one out of six) of their investors redeem uncompleted contractual plans at a loss. This is an average. Investors in some contractual plans fare better than others because of differences in their fund's performance. As pointed out in the Commission's Report, 33% of the investors in one contractual plan redeemed at a loss as did 25% of the investors in another contractual plan. Most of those investors would have a profit if the normal sales load rather than the front-end load were deducted from their payments.

It is highly significant that the questionnaire was put to those who redeemed a plan starting anywhere from several months to over *five* years after their initial purchase. Yet the Plan Sponsors Association has offered a hardship refund limited to a period of only *one* year after the purchase of a contractual plan.

(c) *What is the aggregate loss sustained by such persons in a typical twelve-month period?*

The Commission does not have the necessary data to answer this question.

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?*

The prospectuses of most contractual plans already indicate on their front page that the investor may invest in the underlying mutual fund shares on a lump sum or a level-load plan basis at normal rather than front-end load sales charges. However, given the great disparity which exists between the immediate compensation a salesman can earn from selling a contractual rather than a voluntary plan, it would be difficult to assume that his oral sales presentation would refer to the level-load voluntary plan, or, if it did, that such oral presentations would result in a fair comparison of the relative merits of contractual and voluntary plans in the same fund. Given the six times greater sales compensation from the first year's payments for the sale of a contractual plan, there is much doubt as to whether prospective purchasers can be made effectively aware of the existence of level-load plans and of their relative merits. This is not to suggest that disclosures in the prospectus could not be improved. However, we do not believe that improved prospectus disclosure will be adequate to meet the problem.

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?*

We do not have data showing the median loss. However, statistics of the plan sponsors showing the 10- and 12-year experience of investors in four contractual plans indicates that the *average* loss was about \$67 per account among those which were redeemed up to 10 or 12 years after being opened and before completion of 36 payments.