

**Written Statement of Lamar Smith  
Chairman and Chief Executive Officer of  
First Command Financial Planning, Inc.**

**on**

**GI Finances:  
Protecting Those Who Protect Us**

**before the**

**Subcommittee on Capital Markets, Insurance  
and Government Sponsored Enterprises**

**of the**

**Committee on Financial Services  
U.S. House of Representatives**

**September 9, 2004**

**INTRODUCTION AND OVERVIEW**

First Command Financial Planning, Inc. appreciates this opportunity to provide testimony on a subject of importance to us all. I am Lamar Smith, chairman and chief executive officer of First Command. It is my privilege to lead this 100 percent employee-owned company that is the single largest provider of financial plans to military families.<sup>1</sup> We currently serve 305,000 client families including 129,000 on active duty. These clients include more than 40 percent of the general and flag officers, more than 30 percent of the warrant and commissioned officers, and more than 16 percent of the senior non-commissioned officers.

Please allow me to commend Chairman Baker and members of the Capital Markets Subcommittee of the House Financial Services Committee for this public review of financial products and services being offered to our men and women in uniform on military installations. This is a topic of great importance and one on which First Command provided more than a year ago on-the-record reform recommendations in oral and written testimony to the Defense Department “Town Hall” Meeting on military solicitation regulations.<sup>2</sup> We have consistently called for improvements in the current rules, and we renew that call today.

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<sup>1</sup> – “First Command Capturing the Military Market, an Analysis of the Financial Plan Market within the Military Community,” August 2004, DALBAR Inc.

<sup>2</sup> – “Comments Regarding Revisions to DoD Directive 1344.7,” August 2003.

American families today face significant challenges in achieving long-term financial goals while maintaining both an acceptable lifestyle and financial security en route. The military is a microcosm of the U.S. populace with the same challenges to the pursuit of financial success and security. Evidence of low savings rates, inappropriate personal debt burdens, near-record personal bankruptcies and finance-related family violence speak to this problem. Possible solutions include increased education, increased protection and increased motivation to personal responsibility. Available tools for the military community include free training and guidance, such as that offered by the First Command Educational Foundation, which is described more fully in this statement; self-help on the Internet; and companies such as First Command that offer products and services for sale. No one has found the “silver bullet” that meets every need. But whatever solutions are explored to protect those in uniform, products, services and support that can create a secure path on which they may pursue their financial goals must also be available.

For a moment, step outside the military. How many people in mainstream America have the knowledge, self-awareness, ability and discipline to establish and then achieve financial security? As a 29-year-old Air Force captain in 1977, my skills were that of a combat pilot and later an instructor pilot in our training system. I had been in no way prepared even to evaluate my personal financial situation, let alone to create a path that would allow me to pursue significant financial goals and to provide security for my family along the way. My wife and I were trying but had poor products with confused objectives and little prospect of success until First Command offered its planning structure. We benefited greatly from our First Command agent sitting with us for several hours offering us a much better opportunity to succeed. In fact, like the majority of First Command representatives it was this positive experience that led me to affiliate with the company.

By appearing here today, First Command Financial Planning hopes to provide insight from our long experience in dealing with the financial interests of military personnel. But first allow me to correct a picture of First Command that may have been created by recent media reports. We have received many indications from our clients, prospective clients and military officials that these reports created an unfortunate and misleading impression about us. Articles have detailed allegations of sales practices targeting junior enlisted service members with questionable insurance products. While bringing attention to areas of possible abuse, the stories have been understood by many to erroneously associate First Command with such sales practices. Let me be absolutely clear on the following points:

- First Command does not solicit business from junior enlisted service members.<sup>3</sup>

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<sup>3</sup> –Even though First Command does not solicit junior enlisted personnel, our client base of 305,000 client families includes a small number of these individuals. In almost all instances these are children or other relatives of existing clients who have requested that they be covered by our services.

- Our market is the military’s leadership ranks.
  - In terms of pay grades, that is E-6 through O-10
  - In terms of rank, that is senior sergeants and petty officers through general and flag officers.
  - In terms of active duty status, that is senior non-commissioned, warrant and commissioned officers.
- First Command does not recommend life insurance for savings or investment purposes.
- First Command does not attempt to use command influence to create selling opportunities. Our Board of Advisors is just that – advisors to senior management who keep us in touch with the needs of the military community. The notion that they are involved in any way in our sales process is not true. The men and women on our Board of Advisors each enjoyed long and distinguished careers, some rising to the pinnacle of their respective services. They now work successfully in post-military careers, many continuing to serve in capacities that keep them positively involved in the military community. It would be unfortunate if anyone inferred that these honorable individuals would take any action or support any organization that did not act in the best interests of service members.
- We do not sell in mass meetings or at mandatory formations.
  - Our products are offered in the context of a recommended Family Financial Plan that addresses long-term goals, short-term needs and emergency considerations.
  - The plan is only recommended following multiple appointments spanning many hours. For couples, both spouses are present at the appointments whenever possible.
  - First Command representatives are not allowed to sell products to first-time clients outside of the planning process.
- We stay closely attuned to our clients and market for indications of how we can do our job better.
- We are honored to count more than 20 percent of our potential market as clients and to have a more than 90 percent approval rating from them.<sup>4</sup>

Those in our segment of the market are mature, experienced, educated, responsible men and women. We would not enjoy the satisfaction ratings we do if we did not serve them professionally, ethically and effectively. The picture that many readers derived from the media articles is not the true picture of First Command.

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<sup>4</sup> – “First Command Financial Planning Client Satisfaction Survey,” conducted by National Service Research, February 2003 and April 2004.

## Components of a Family Financial Plan

First Command's Family Financial Plans include recommendations for life insurance, bank-based savings, and long-term investments. In both the insurance and banking recommendations our products and services are among the best in the industry.

- Insurance - Where appropriate, our recommendations can include whole life insurance to supplement the military's term insurance.. We believe insurance is for creation of an immediate estate if the plan holder should die prematurely. We do not recommend life insurance for savings or investment purposes. The insurance we offer in this regard is among the most competitive in the military marketplace. Features of the insurance we recommend include:
  - No war clauses – to ensure that the terms of the policy will be met even if war was the cause of death.
  - No aviation clauses – Similar to the war clause, some insurance policies exempt the policy from being fulfilled in case of death resulting from an aircraft accident. None of the policies we recommend have such an exclusion.
  - Options for no aviation rate ups – First Command has negotiated with one of the insurance companies it represents to offer a policy that does not automatically increase the premiums on aviators.
  - Our options to purchase additional insurance are guaranteed options every three years to age 40 no matter what physical condition the client is in at the time of the option and no matter where they are or what they are doing. These options can be extended to age 49 by accepting a minimum requisite number of the pre-age 40 options.
  - We have negotiated very favorable premiums on these policies with our carriers based on our industry leading persistency (policy-retention) rate.
- First Command Bank – Established in 1998, First Command bank was designed specifically with the needs and lifestyles of military consumers in mind. First Command recognizes that debt – when under control – can be a useful tool in personal financial management. We strive to offer banking products and services that compete favorably with any financial institution serving the military market.<sup>5</sup> And judging by the fact that the bank is gaining well over 1,000 new customers a month, we seem to be achieving that goal.

Because First Command offers insurance products tailored to the specific needs of our military clients that compete favorably with any in the market and because First Command Bank offers competitive rates for products and services compared to its peers in the community, it is self-evident that First Command offers only the investment products and services that are tailored to be in our clients' best interest?

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<sup>5</sup> – “Military Bank Comparison Chart,” August 2004 (attached) shows First Command rates compared to a number of banks serving the military market.

## **THE NEED FOR MILITARY FAMILIES TO HAVE A FINANCIAL PLAN**

As stated above, First Command is not active in the junior enlisted market. However, we are concerned about these men and women. The First Command Educational Foundation, about which I will say more later, has as a significant part of its mission the goal of helping these young people develop sound personal financial habits.

The savings rate of Americans is around 2 percent (closer to 1 percent for the first half of 2004).<sup>6</sup> Personal bankruptcies for the year ended June 30, 2004, were almost 1.6 million, the second-highest figure recorded.<sup>7</sup> These issues are present in the military community just as with the civilian sector. In fact, it could be argued that the effects of financial stress – regardless of its source – are heightened in the military as a result of the high operations tempo, frequent and lengthy family separations, and attendant stresses of a military at war. The Department of Defense has recognized this and has started programs of its own and partnered with outside organizations to offer financial education and to motivate service members to pursue financial well being.<sup>8</sup>

We too believe and have built our business on the fundamental tenet that it is critical to help military families develop habits that provide them the tools, ability and motivation to pursue achievement of significant financial goals with the highest available level of security as they do so.

## **POSSIBLE WAYS AHEAD**

In suggesting the need for greater financial knowledge and planning, we recognize that the media reports mentioned above address allegations of questionable sales practices especially targeting junior enlisted personnel. Also as noted above, First Command is already on record supporting DoD reform of solicitation regulations, and we would also support codifying some of these reforms in legislation.

A possible system that could address the problems would include:

- requiring those in the most vulnerable ranks (likely E-1 through E-3) to meet with a supervisor or installation counselor prior to signing an allotment form affecting their pay. This meeting would allow the junior enlisted person a broader view of the product or service under consideration. While respecting

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<sup>6</sup> – U.S. Bureau of Economic Analysis, <http://www.bea.gov/briefrm/saving.htm>

<sup>7</sup> – Administrative Office of the U.S. Courts,  
[http://www.uscourts.gov/Press\\_Releases/june04bk.pdf](http://www.uscourts.gov/Press_Releases/june04bk.pdf)

<sup>8</sup> – *American Saver* online magazine, *Military Saves Campaign Underway*  
[http://www.americasaves.org/back\\_page/american\\_saver1.cfm](http://www.americasaves.org/back_page/american_saver1.cfm)

the service member's freedom of choice, this would also fulfill what we see as the military's obligation to seek the best interest of its young men and women.<sup>9</sup>

- creating a DoD registry of agents and the companies they represent (the company responsible for agent appointment and, therefore, agent conduct). If an unscrupulous agent is identified, that person can be stopped at all installations. This would also allow military officials to identify patterns of abuse by more than one agent of one company.
- As we mentioned in our DoD testimony, requiring companies to provide lapse rate data on products sold that shows how many purchasers cancel their products. Such a system would make much of the monitoring issue more self-policing because the lapse rate is the voice of the marketplace on the benefits and quality of insurance. The data could be an indication of how military members rate products and services with the assumption that individuals, over time, will not keep products that do not offer them value.
- We will also make a suggestion regarding the sale of Systematic Investment Plans discussed later in this document.

### **Attacking the bigger problem**

But what of the need to improve the personal financial habits of those in uniform? Creating educated, motivated consumers acting knowledgeably in their own best interest is the true long-term solution to this problem. What has been done?

The military community has resources to help in this regard. Most installations have a financial services center that provides training and counseling to service members and their families. Additionally, each military unit has a person in a leadership position tasked with financial education and, when necessary, crisis intervention.

First Command has been active in support of these efforts. In 1983 – 21 years ago – we created what would become the First Command Educational Foundation. Initially, the Foundation, funded by the company, its agents and members of the company founder's family, offered scholarships to children of active duty parents. To date, the Foundation has awarded more than \$2.7 million in scholarships.<sup>10</sup> In light of the issues we are discussing today, the Educational Foundation was reoriented four years ago and

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<sup>9</sup> – Such an arrangement need not be limited to financial products. Many vendors solicit from among those in the military with limited life experience, often for major purchases and commitments. Automobile sales, major electronic purchases and furniture are a few.

<sup>10</sup> – First Command Educational Foundation Web site. [www.firstcommand.org](http://www.firstcommand.org). *It is important to note, neither First Command nor the Foundation, chooses the recipients of scholarship dollars. Selection is left to local organizations such as spouses clubs who know best where the money would do the most good. Additionally, the Foundation's personal finance classes are conducted only at the invitation of local military commanders.*

restructured as a fully independent, non-profit organization. The First Command Educational Foundation expanded its mission and began as a primary focus to offer generic, non-commercial financial education to service members and financial training officials in the military. Through a worldwide team of trained volunteers, the Foundation provides classes on personal finance in almost any non-combat area where U.S. military members are stationed. The training is offered to all ranks but is tailored to be especially beneficial to junior personnel. Additionally, the Foundation offers “training the trainers” instruction for military finance counselors. These instructional offerings have received outstanding reviews from participants and are provided free of charge. Again, these are generic, non-commercial presentations that do not tout any product or push any philosophy other than a commonsense approach to financial stability by living on less than you make and regularly investing and saving.

In times of tight budgets and combat-related responsibilities, the military cannot devote the dollars it might like to financial education. First Command Financial Planning continues to support the Educational Foundation with funding and expertise. As will be discussed below, it is imperative that military leaders, particularly in the non-commissioned officer ranks, be able to put their own financial houses in order so as to offer worthwhile help to their subordinates from a position of strength and experience. But even with help from various educational foundations – First Command’s and others – the need exceeds the resources to meet it.

To be sure, education is valuable, but even if adequate educational resources are found, is that the answer to the current problem of personal financial behavior? It does not seem so. In the Internet age, almost limitless information is available to consumers at any level of sophistication. Additionally, personal financial information abounds in the forms of magazines, television programs and newspaper stories. If adequate information were the key the problem would be solved. Unfortunately information alone is not the key. We have a saying at First Command: Information is not knowledge. Knowledge is not Wisdom. You must not only have data, you must have an understanding of the data. You must not only have an understanding of the data, you must have the judgment to act on it. You must not only have the judgment to act, you must act. Education is valuable and should not be underestimated. But it is not the only answer.

For help in time of need, military members can turn to their chain of command. As stated above, First Command has been active in the military market for 45 years. In that time, we have had the opportunity to view the personal financial reality of literally hundreds of thousands of military families. We only solicit business from the leadership ranks, so we only see the financial situations of those in leadership positions. All too often, these individuals are in need of help just like the ones they might be called on to counsel. It is not uncommon for even those in the military leadership ranks not to have a clear financial goal or consistent activity in place to build meaningful wealth.<sup>11</sup>

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<sup>11</sup> – “Average Financial Position of Selected New and Existing Clients,” (attached).

Information and education are not enough. If they were, we would see more evidence of positive results in the financial lives of military members. What then is the solution?

### **WHAT HAS WORKED FOR MANY MILITARY FAMILIES**

There is no shortage of products available to today's military families. Anyone can invest in stocks through an easily established Internet trading account. Anyone can invest in a mutual fund the same way. Insurance is available online, by phone and through numerous agents who focus on the military. The military itself has "products" through its Servicemembers' Group Life Insurance and its version of the Thrift Savings Plan. If individuals have the knowledge to evaluate their own budget; the self-awareness to envision short- and long-term financial goals; the ability to calculate present and future value of the those goals; the skill to choose the right products with which to pursue the goals and to choose the right products to protect against emergencies or death; the discipline to stay on the path they have established, possibly for decades; and the ability to evaluate their progress and direction and make necessary adjustments, then they need very little help, from First Command or any other company.

So how do people without the abilities above try to move from where they are to where they want to be? Those with significant assets get help . . . a knowledgeable financial partner to serve as a guide or coach on their financial journey.

Allow me to offer an illustration. The image of building a house seems pertinent here. Most of us know a little about real estate, about design, about construction, but very few of us refuse all help and select and buy land; design a structure; and then build it ourselves. We get knowledgeable professionals to help us. The same can be said of taking care of our health. If we suspect something is physically wrong, we seek professional medical advice. Unless particularly skilled in the care of today's computer-based cars, we seldom even work on our own autos . . . we get help.

Is a prudent plan to pursue well-conceived financial goals any less important a project than maintaining a car or taking care of your health or building a house? It has seemed odd to me that as the ease of access to financial products and services has grown, particularly through the Internet, the assumption has grown with it that everyone should be able to do it on their own. Do some? Of course. But I believe the more typical experience can be compared to one of our clients, a top-ranking sergeant stationed at Fort Hood, Texas, who recently said: "I don't want to have to read the business pages. I barely have time to read the sports pages."

We are at war. Our service members are busy. Many are in hostile situations. Many have neither the time nor inclination to create, monitor and adjust a financial plan. They want help, they are willing to pay a fair price for it, but where are they going to get it? All too often, because of the demands of military life or the reality of the "can-do" military culture, those who need help do not seek it. In many cases, companies that offer financial advice are likewise not providing the level of service required by military consumers because the dollars available for dedication to a financial plan do not generate sufficient



return to the financial advisor for his or her time. The result is that many times those in need of help do not connect with those who can help because of the gap between what the market says the help is worth and what the prospective client can afford to pay. Where is a method to break this cycle?<sup>12</sup>

## **Systematic Investment Plans**

For about a year now one of First Command's principal regulators, the NASD, has been closely looking at virtually all phases of our operation. This investigation is almost concluded, and we are in the middle of discussing its findings as well as an appropriate disposition of the matter. The NASD main concerns apparently relate to how we market our plans. Since publication of *The New York Times* articles in July the SEC has also started an investigation.

As I think you can understand this is a very sensitive time for First Command. I would have preferred that these hearings occur after resolution of these regulatory issues. However, because these hearings have been scheduled during this active regulatory period, I am constrained as to what testimony I can provide concerning First Command activities that are under scrutiny. As you can appreciate, the discussions we are having with our regulators are being conducted in a non-public forum. This is the traditional way such discussions are conducted, and it is necessary if there is to be a productive and appropriate resolution. We would be pleased to discuss the matter with your counsel privately, if you want us to.

This will not deter me from exploring with the Subcommittee possible suggestions or recommendations in general for improving the marketing and sales of these types of investments.

## **Features**

Systematic Investment Plans consist of 180 investments, ideally made monthly over a 15-year period, although investors may stop and restart investing at any time. The plans have a sales charge equal to half of each of the first 12 investments. When the purchaser has made the equivalent of 180 monthly investments, the effective sales charge for the investment period is 3.3 percent. Of course, if investments are stopped and never restarted the effective sales charge percent is higher. For example, if investors stop at 10 years, the sales charge would effectively be 5 percent. Conversely, investors who reach the 180-investment mark may continue to invest without additional sales charge for another 120 investments, which would be another 10 years if investments are made monthly. If the equivalent of 300 monthly investments are made, the effective sales charge is 2 percent. \_\_\_\_\_

<sup>12</sup> – EXAMPLE: A typical 5 percent load on a \$300 per month investment generates \$15/month or \$180/year in potential income for a financial advisor. Many more cost-effective opportunities exist for most advisors where higher-net-worth clients result in a better return for the time committed.

For certain classes of plan shares, investors pay a 12b-1 fee ranging from a tenth to a quarter of a percent of assets on an annual basis. Investors enjoy a “withdrawal and replacement” benefit through which they may withdraw a lump sum from their account and replace it later at the current net asset value of the plan without sales charge. Investors are advised that in such instances there can be tax implications and there is market risk as the funds are reinvested at net asset value (NAV).

### **Effects of the sales charge**

Media reports on Systematic Investment Plans tend to focus on the sales charge and its effect on long-term wealth accumulation. Although appropriate disclosures are made concerning the sales charge, the argument is the money not invested in the first 12 months, because of the sales charge, puts the investor at a disadvantage compared to an investor in a no-load or traditional load fund where the sales charge is about 5 percent. The problem with this comparison is that it overlooks the value offered by the systematic plan in creating long-term investors. As stated above, First Command only recommends a Systematic Investment Plan in the context of a broader Family Financial Plan and only for long-term goals. The Family Financial Plan also includes recommendations for insurance and bank-based savings for emergency and short-term needs.

Developing this tailored plan requires that a First Command representative find a prospective client; arrange and conduct an initial appointment; gather and evaluate extensive personal financial details; develop a plan recommendation and have it reviewed by local managers and the First Command home office staff; present the recommendation to the prospective client in a second appointment; implement as directed by the client; and present and explain components of the implemented plan in a third appointment.

At a minimum, the First Command process is designed to provide the client with hours of interaction with our representatives over multiple appointments involving the representatives, their staffs, superiors and the home office support staff. As discussed above, this professional advice offered in one-on-one relationships is, in our view, the best hope for solving the significant problem of personal financial behavior affecting so many American families.<sup>13</sup> In the 2003-2004 sales year, First Command representatives helped clients implement 46,425 financial plans. As of Dec. 31, 2003, First Command clients had a total of 566,000 systematic investment plan accounts placed with mutual fund companies; our average client family is investing \$255 a month in those accounts; the accounts had a total net asset value of \$9.3 billion; the average net asset value per account was \$50,300; and during 2003, \$658,733,000 was invested in the accounts. Media discussion of First Command products has centered on the Systematic Investment Plan. However, it is pertinent to note that investment services comprise only about 40 percent of First Command business and systematic plans are only 70 percent of that. Each

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<sup>13</sup> – For a more complete picture of the plan preparation service, see “Sale Charges for Services Associated with Starting Contractual Investments for New Clients,” (attached).

Family Financial Plan recommended by First Command includes an insurance and bank-based savings component in addition to a recommendation for long-term pursuit of goals, usually through equity investing.

In a time where we share concerns about the personal financial activities of American families in general and military families in particular, it is important to encourage developing good savings and investment habit.

### **Congress has taken effective action**

The sale of Systematic Investment Plans is governed by the 1970 amendment to the 1940 Investment Company Act.

In the 1960s, these types of plans were different from the systematic plans of today, and there were questionable practices involved. At that time, there were many avenues through which to enter a so-called “contractual” plan. The dollars of contractual investors could be commingled in a mutual fund with non-contractual investors. The front load was collected in a variety of ways, and once committed, consumers had little recourse if they changed their minds.

Recognizing the need to bring protection and good practices to the creation and sale of these plans, in 1970 Congress took effective action so that, as a statutory requirement, each investor receives a letter after beginning a Systematic Investment Plan explaining the costs and offering that for 45 days from the date of the letter any client who wants to withdraw will receive the net asset value of all shares owned and a full refund of sales charges.

The statute also requires that a second letter be sent at 15 months after a plan is started if a client has missed three investments. This letter again explains the costs of the plan and offers the client the opportunity to withdraw and receive the net asset value of all shares owned and a refund of sales charges less 15 percent of the total amount invested. Or, a second letter is sent to systematic plan holders if they have missed one or more investments between the 15th and 18th month after starting the plan. It explains the costs and offers the client the opportunity to withdraw and receive the net asset value of all shares owned and a refund of sales charges minus 15 percent of the total amount invested.

Although it is not required, First Command has created its own disclosure form, which clients sign, indicating they understand the costs and risks of systematic plan investing.

Additionally, as noted above in “Possible Ways Ahead,” First Command would recommend Congress consider extending the period of protection from 18 months to 36 months and limiting the amount of the sales charge to 9 percent of the money invested.

The Systematic Investment Plans recommended by First Command are exclusively for systematic investors. Other broker dealers can and do bring clients into these plans, but the plans are designed only for investors with long-term objectives committed to the dollar-cost-averaging pattern of investing.

It is, of course, important that systematic plans be recommended only to those with an expectation of steady income and the maturity and life experience to understand the long-term commitment being made.

### HELPING MILITARY FAMILIES

Given our 45 years of service to military members and given the size of our client base, particularly those on active duty, I think it is understandable for First Command to ask: What specific complaints from clients resulted in our being before you now? And the answer, as far as I know, is none.

I can think of few in America more deserving of our protection and help than military families. We have addressed the area of protection and recommended action the Defense Department can take. But who will help military families? More than education is needed. More than commercial products and the military's benefit structure are needed. For the many military families who will not or cannot do it themselves, a financial coach is an effective method by which these deserving Americans can pursue their goals.

Everyday, First Command representatives are working with military families. They are available for the military families should questions or concerns arise. They are available for military families when emergencies arise.<sup>14</sup> They are available for military families when life changes require an adjustment to the plan.

The 1970 amendments to the Investment Company Act of 1940 established conditions for the lawful sale of Systematic Investment Plans that have worked well for almost 35 years. If that law is to be changed, may we respectfully suggest it happen in a carefully considered and informed manner that fully protects the thousands of American families who are presently invested in these securities. We see today's hearing as an important first step in this process, and we appreciate the opportunity to appear today before this Subcommittee.

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<sup>14</sup> – To date, 61 First Command clients have lost their lives in Afghanistan or Iraq since the war on terror began. The average age of the deceased was 31 years. Their aggregate insurance coverage increased more than 22 times and their average investment value increased almost 450 percent. The net result is that after being a First Command client for only an average of six years, the survivors of these individuals received in excess of \$6 million in insurance and investment proceeds as a result of their association with our company.



## Military Bank Comparison

	First Command Bank	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16
<b>Rates</b>																	
Checking	0.55	0.05	0.20	1.11	0.50	0.33	0.50	0.10	0.25	.70	0.20	0.25	.70	0.50	0.15	0.50	0.50
MM - \$10,000	1.37	0.25	0.50	1.92	1.22	0.88	1.00	0.50	0.50	1.30	0.65	0.78	1.30	1.00	1.31	1.46	0.80
Credit Card - low	5.5	8.4	7.00 (v)	16.00		n/a	9.99	n/a	n/a	11.40	n/a	n/a	11.40	9.99	4.5 (v)	9.90	8.99
Credit Card - high	11.50	12.4	8.40 (v)		n/a	n/a	9.99	n/a	n/a	17.40	n/a	n/a	17.40	9.99	16.5 (v)	11.90	12.90
Loan - unsecured	9.15	11.00	10.25	18.00	n/a	9.5-18 **	8.99	12.00	n/a	8.25-12	13.00	6.67	8.25-12	8.99	9.75 (v)	12.00	9.99
Loan - secured by mutual fund	6.00	n/a	n/a	n/a	n/a	n/a	5.75	11.11	n/a	n/a	n/a	n/a	n/a	5.75	5.45	n/a	n/a
		** rate fluctuates based on rank															
<b>Fees</b>																	
NSF	20	30	32	14	21	20.89	28	25	24	25	22	28	25	28	25	20	25
Wire	12	15	12	10	15	17.93	12	5	15	15	12	15	15	12	12	14	12
Check charges	10	16.75	7.50	6.00	18.00	11.49	12.25	12.95	12.15	12.75	8.20	15-20	12.75	12.25	free	10.45	free
Online Bill Pay	Free	4.95	5.95	6.00	n/a	4.95	free	5.75	4.95	4.95	4.95	5.95	4.95	free	free	4.95	5.00

banks 1-16 are financial institutions currently serving the military market

n/a means product not offered

(v) variable rate

As of 8/25/04

FCB BETTER

MEETS FCB

BEATS FCB

## Average Financial Position of Selected New and Existing Clients

First Command's defined market is active duty military families in pay grades E-6 and above. We periodically sample client data to see the financial standing of the average family when they first start a plan with us.

Our most recent sample from early 2004 included more than 1,500 active-duty E-6s, which are mid-ranking non-commissioned officers. On average, those families had \$6,000 in savings, \$4,000 in investments and \$25,000 in debt, for an **average net worth of negative \$15,000**.

The picture for young officers was not much different. The same sampling included more than 1,100 O-1s, who are at an entry-level commissioned rank. On the average, those families had \$4,900 in savings, \$3,300 in investments and \$24,000 in debts, for an **average net worth of negative \$16,000**.

This data was compared to more senior military families among First Command clients who were updating their financial plans during the same time period.

The sample included more than 300 E-8s, which are higher-ranking non-commissioned officers. On the average, they had been First Command clients for 3.2 years and had \$11,000 in savings, \$40,000 in investments and \$19,000 in debts for an **average net worth of positive \$32,000**.

Our sample included nearly 1,200 O-3 families, which are mid-level officers, having their plans updated. These families had been First Command clients for an average of 5.8 years and the average savings for this group was over \$12,000, average investments was nearly \$45,000 and average debts were just over \$22,000, for an **average net worth of positive \$35,000**.

*The figures above are averages selected from the First Command database at the times indicated. They may not be representative of the experience of other clients and are not indicative of future performance or success.*

## **Sale Charges for Services Associated With Starting Contractual Investments for New Clients**

Average contractual monthly plans size per family for June 16, 2003 – June 15, 2004, is \$255. This yields an average sales charge of \$255X.50X12 or \$1530 per family. For starting client families on these investment programs they receive the following services:

- Prior to engaging in the tailored financial planning process prospective clients are provided an orientation to First Command Financial Planning through either an individual briefing/discussion or through a dinner seminar. During this phase both the prospective client and the respective registered representative have the opportunity to determine whether the financial planning process should proceed.
- On average, prospective clients receive seven hours of individualized face-to-face interviews and consultations with a trained, licensed, supervised registered representative. This includes:
  - thorough analysis of current financial condition to include pay, military benefits, previous year's tax liability, debt, monthly financial behavior, equity position, financial reserves to handle emergency situations without resorting to debt or liquidation of investments.
  - analysis of any existing equity or fixed investments to enable subsequent verification of suitability for the client's stated goals.
- The registered representative engages the prospective clients in a discovery process to determine their unique goals, the time horizon for those individual goals, risk tolerance and relative comfort with various investment vehicles as appropriate. The objective of this phase of the discussion is to determine the prospective client's detailed vision of financial success as it pertains to their individual situation.
- The registered representative then begins the process of developing an appropriate and affordable plan to facilitate pursuing the stated goals. This process includes reviewing First Command's recommended investment list, applying the structured planning process through our proprietary planning software and electronically forwarding the draft financial plan to the representative's district agent and registered principal for review and interim approval. The draft financial plan if approved by the district agent and registered principal is then forwarded to First Command's corporate level Financial Plans Department where resident principals again review the recommendations against the prospective clients' current financial condition and goals.
- Assuming the proposed plan is again approved, a written financial plan is provided to the registered representative. The registered representative's staff completes all necessary implementation paperwork for the prospective clients in anticipation of plan implementation. Another appointment with the prospective clients is scheduled. The financial plan is thoroughly reviewed and discussed. A prospectus is provided and reviewed with the clients. The prospective clients may reject the plan recommendations without financial cost, or implement the plan either in whole or part.

- Assuming the client never makes another purchase through First Command Financial Planning, these products will continue to be serviced for the client without additional sales charge for the life of the clients. A registered representative will be available to discuss their plan and their goals at no additional charge. The client is typically called periodically for a face-to-face update review of their financial condition, changes to their goals and status of their investments at no additional charge unless they increase their program.
- The client is tracked by First Command during their frequent moves that occur as part of the mobile U.S. military force.
- The client will receive periodic financial planning notifications and magazines and will have on-line access to their accounts through a proprietary web portal.
- The client will have access to toll-free telephone numbers and Internet capability to contact First Command should they be deployed or out of near access.
- Generally speaking, even in cases where clients have only investments through First Command their assigned registered representative will assist them in survivorship issues should a family member die.

At any time during the process prospective clients are encouraged to call (at no charge) with any additional questions they might have.