CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 23, 2006

S. 418
Military Personnel Financial Services Protection Act

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 14, 2006

SUMMARY

S. 418 would ban the sale of mutual funds sold though contractual plans. The bill also would require insurance companies to provide certain notices about insurance policies offered by the U.S. government when selling an insurance policy to servicemembers or while marketing on military installations. The bill would require the Department of Defense to maintain a list of agents and advisors barred from doing business on military installations. Finally, the bill would amend securities law to require registered securities associations to provide public access to certain consumer information and to file certain financial information with the Securities and Exchange Commission.

CBO estimates that implementing S. 418 would result in no significant cost to the federal government and would not affect direct spending or revenues.

S. 418 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA); any costs to state, local, or tribal governments would be voluntary.

S. 418 contains private-sector mandates, as defined in UMRA, related to the sales of mutual fund and life insurance products. Based on information provided by industry and government sources, CBO expects that the aggregate direct costs of complying with those mandates would fall below the annual threshold established by UMRA for private-sector mandates ($128 million in 2006, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing S. 418 would result in no significant cost to the federal government and would not affect direct spending or revenues.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 418 contains no intergovernmental mandates as defined in UMRA. The bill would encourage, but not require, state insurance regulators to coordinate with the Department of Defense to protect military personnel from predatory life insurance schemes and to issue a report to the Congress. Based on information from state insurance commissioners, CBO estimates that the costs of such cooperation would not be significant.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 418 would impose private-sector mandates as defined in UMRA on registered investment companies, registered securities associations, insurers and those selling life insurance products to members of the Armed Forces on military installations of the United States. Specifically, the bill would impose mandates by:

- Prohibiting the sales of periodic payment plan certificates;
- Requiring insurers and producers of life insurance products to make certain disclosures when selling or soliciting life insurance products on military installations;
- Requiring a registered securities association to include new rules governing the sales of securities on the premises of military installations; and
- Requiring a registered securities association to provide an electronic or other process to receive and respond to inquiries about disciplinary actions taken against brokers and dealers.

CBO estimates that the aggregate direct costs of the private-sector mandates in the bill would fall below the annual threshold established by UMRA ($128 million in 2006, adjusted annually for inflation).

Prohibition on the Sales of Periodic Plan Certificates

Purchasers of periodic payment plan certificates make monthly investment payments into mutual funds, typically for a period of 15 years or more. Under current law, the Investment Company Act limits the sales load on such certificates to 9 percent of the total payments to be made during the life of the plan, but allows that sales load to be significantly front-loaded. Specifically, up to half of the monthly investment payments made in the first year may be deducted for sales load. According to industry sources, current practice is to charge a sales load that amounts to 3.3 percent of the total payments expected to be made over the life of the plan, and to collect that sales charge for the entire plan period by deducting half of the first 12 investment payments.

S. 418 would impose a private-sector mandate on registered investment companies by prohibiting them from selling any more periodic payment plan certificates. The cost of complying with the mandate would be the income (sales load) forgone net of any operating expenses to generate that income. Based on information from industry sources on sales in 2003 and 2004, CBO estimates that the annual sales load that would be forgone by the prohibition of new sales of periodic payment plan certificates would range between $30 million and $35 million. CBO was unable to obtain sales data for 2005, but according to industry sources, sales decreased significantly from 2004 and are expected to continue to decrease in the future in the absence of this bill. Thus, the expected loss of income from the prohibition of sales of such products would be lower than the amounts presented using 2004 data.

Disclosure and Inquiry Response Requirements

The bill also would impose private-sector mandates regarding additional disclosures by those selling life insurance or securities products on military bases, and responses to inquiries about broker or dealer registration information. Based on information from industry and government sources, CBO estimates that the direct cost to comply with those mandates would be small. Those mandates would:

- Require insurers and producers of life insurance products selling or soliciting those products on military installations to provide a written disclosure to the consumer that subsidized life insurance may be available from the federal government, and that the U.S. government has in no way sanctioned, recommended, or encouraged the product being offered;

- Require a registered securities association to include provisions, within the rules of the association, governing the sales, or offer of sales, of securities on the premises of any military installation to any member of the Armed Forces; and

- Require a registered securities association to establish and maintain a readily accessible electronic or other process to respond to inquiries regarding registration information about brokers and dealers and their associated persons, including disciplinary actions taken against them.

PREVIOUS CBO ESTIMATES

On Arpil 4, 2005, CBO transmitted a cost estimate for H.R. 458, the Military Personnel Financial Services Protection Act, as ordered reported by the House Committee on Financial Services on March 16, 2005. S. 418 is nearly identical to H.R. 458. H.R. 458 does not include the mandate that would require associations registering as a national securities association to include new rules regarding the sales of securities on the premises of military installations. CBO concluded that the cost of the private-sector mandates in both bills would not exceed the threshold established by UMRA.

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