



Highlights of [GAO-06-23](#), a report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

## Why GAO Did This Study

In 2004, a series of press articles alleged that financial firms were marketing expensive and potentially unnecessary insurance or other financial products to members of the military. To assess whether military service members were adequately protected from inappropriate product sales, GAO examined (1) features and marketing of certain insurance products being sold to military members, (2) features and marketing of certain securities products being sold to military members, and (3) how financial regulators and the Department of Defense (DOD) were overseeing the sales of insurance and securities products to military members.

## What GAO Recommends

Matters that Congress should consider include banning contractual plans, requesting that insurance regulators conduct reviews to ensure that products being sold to military members meet existing insurance requirements, and ensuring development of appropriateness or suitability standards for such sales. GAO also recommends that DOD and financial regulators work cooperatively to help improve the oversight of such products. DOD and the financial regulators provided comments generally agreeing with this report and its recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-23](http://www.gao.gov/cgi-bin/getrpt?GAO-06-23).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard Hillman at (202) 512-8678 or [hillmanr@gao.gov](mailto:hillmanr@gao.gov).

# FINANCIAL PRODUCT SALES

## Actions Needed to Better Protect Military Members

### What GAO Found

Thousands of junior enlisted service members have been sold a product that combines life insurance with a savings fund promising high returns. Being marketed by a small number of companies, these products can provide savings to service members that make steady payments and have provided millions in death benefits to the survivors of others. However, these products are much more costly than the \$250,000 of life insurance—now \$400,000—that military members already receive as part of their government benefits. In addition, the products also allow any savings accumulated on these products to be used to extend the insurance coverage if a service member ever stops making payments and fails to request a refund of the savings. With most military members leaving the service within a few years, many do not continue their payments and, as a result, few likely amassed any savings from their purchase. Several of the companies selling these products have been sanctioned by regulators in the past and new investigations are underway to assess whether these products were being properly represented as insurance and whether their terms were legal under existing state laws.

Thousands of military members were also purchasing a mutual fund product that also requires an extended series of payments to provide benefit. Known as contractual plans, they expect the service member to make payments for set periods (such as 15 years), with 50 percent of the first year's payments representing a sales charge paid to the selling broker-dealer. If held for the entire period, these plans can provide lower sales charges and comparable returns as other funds. However, with securities regulators finding that only about 10 to 40 percent of the military members that purchased these products continued to make payments, many paid higher sales charges and received lower returns than had they invested in alternatively available products. Regulators have already taken action against the largest broker-dealer that marketed this product and are investigating the few remaining sellers for using inappropriate sales practices. With the wide availability of much less costly alternative products, regulators also question the need for contractual plans to continue to be sold.

Financial regulators were generally unaware of the problematic sales to military members because DOD personnel rarely forwarded service member complaints to them. Insurance products also usually lacked suitability or appropriateness standards that could have prompted regulators to investigate sales to military members sooner. Securities regulators' examinations of contractual plan sales were also hampered by lack of standardized data showing whether customers were benefiting from their purchases. Although recognizing a greater need for sharing information on violations of its solicitation policies and service member complaints, DOD has not revised its policies to require that such information be provided to financial regulators nor has it coordinated with these regulators and its installations on appropriate ways that additional sharing can occur.