

WRITTEN STATEMENT

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ON

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Mr. Chairman, members of this distinguished committee, thank you for the opportunity to be here today and for your interest in protecting the financial well being of the men and women who serve in our armed forces.

Allow me to provide the committee with historical information on the personal commercial solicitation issue, and to address what the Department has done, and intends to do to improve commercial solicitation oversight and enforcement. I will focus on the sale of supplemental life insurance and financial products on Department of Defense (DoD) installations.

Service members have long been seen as targets for charlatans, con men and others who seek to steal their money with deals “too good to be true,” or presented under false pretenses. Why is this?

Service members are typically young and inexperienced. They are often motivated by idealism and cannot imagine that their fellow citizens and, in some cases, their senior NCOs, officers, and military retirees would take advantage of them.

They are often earning a steady paycheck for the first time and, though their pay will never make them rich, it is often far more money than they have ever laid their hands on in their lives. Those who enlisted are motivated to serve. They also tend to be concerned about the future – providing for themselves and their families.

The confluence of these otherwise noble characteristics makes service members subject to swindlers and fast-talking sales men and women.

When we permit someone to sell a product to some degree we provide the appearance of an endorsement of that product and the behavior of the sales person.

As you know, members of the military have the opportunity to purchase up to \$400,000 worth of term life for a reasonable premium of \$26 per month. For many – indeed most—military members, \$400,000 is a sufficient amount of insurance, especially if combined with Thrift Savings Plan (TSP) participation or another savings plan. I will speak more of our Financial Readiness program later. For now, let me say that a better informed Service member/consumer will be able to make wiser decisions about the products he or she buys.

We must provide a degree of protection that ensures we do not facilitate deceptive practices on the installation. We also must provide training and education that better equips our members and their spouses to a “smell a rat” outside the gate.

The Department's concern with the sale of insurance and investment products on DoD installations dates back to the Vietnam War era. At that time, problems with private sector associations using their quasi-military status to sell life insurance products led to establishment of the first DoD personal commercial solicitation policies. These included DoD Directive 1344.7, "*Personal Commercial Affairs*", dated July 1, 1969 and DoD Directive 1344.1, "*Solicitation and Sale of Insurance on Department of Defense Installations*", dated August 31, 1977. These directives were later combined into our current DoD Directive 1344.7, "*Personal Commercial Solicitation on DoD Installations*", dated February

13, 1986. Though these Directives established important rules and prohibited practices concerning on-base solicitation, there is ample evidence to prove they have not been easily or consistently enforced.

1996 USAREUR IG Report: In 1996, the US Army Europe (USAREUR) Inspector General (IG) investigated insurance solicitation activities by the Noncommissioned Officers Association (NCOA) and Academy Life Insurance Company. The IG found:

- * Senior NCOs (NCOA members) improperly used their authority to require soldiers to attend assemblies/meetings for the purpose of signing up new NCOA member in violation of Army USAREUR Regulations.
- * NCOA and Academy Life improperly conducted commercial solicitation during duty hours.
- * NCOA improperly received preferential treatment over other non-profit organizations in violation of Army and USAREUR regulations.
- * The chain of command improperly pressured subordinates to join NCOA.
- * NCOA/Academy Life improperly conducted deceptive solicitation practices in violation of DoD Directive 1344.7 and Army and USAREUR Regulations.
- * NCOA/Academy Life improperly used the military postal system for commercial or business purposes in violation of USAREUR Regulations.

In September 1998, as a result of USAREUR IG investigation, Academy Life and its agents were barred from conducting commercial activities on DoD installations worldwide for a period of three years.

1999 DoD IG Report: In January 1998, the Department of Defense Inspector General (DoD IG) was asked to evaluate the Department's enforcement of personal commercial solicitation policy. The DoD IG visited 11 installations and issued a report in March 1999. The IG found policy violations at all 11 installations. The DoD IG found:

- * Quasi-military associations failed to disclose their relationship to insurance companies and in some cases, these associations were allowed to make group presentations to military personnel in order to collect personal information for follow-on solicitation.
- * Insurance agents were permitted to make "financial education" presentations at four installations in direct violation of Department policy.
- * The Services failed to provide sufficient training on insurance to Service members.
- * Commercial sponsorship, where funding, goods, or services is offered to installation Morale, Welfare and Recreation activities in return for public recognition or advertising promotions, was being used to foster commercial solicitation.

- * Administrative personnel at two Army installations accepted allotments forms directly from insurance agents, rather than requiring they be submitted by the military member.

The DoD IG recommended the Assistant Secretary of Defense (Force Management Policy) establish a task force to:

- * Develop consistent controls to administer and enforce the policies regarding commercial solicitation process.
- * Develop the approval and oversight procedures when allowing outside organization personnel from military associations to conduct financial training.

Cuthbert Report: On May 15, 2000, Brigadier General Thomas Cuthbert, US Army (Ret), an employee of the Science Applications International Corporation (SAIC) on contract with the Department, issued a report on solicitation practices on DoD Installations. The Cuthbert Report validated the findings of the DoD IG Report and highlighted 30 years of deceptive commercial solicitation practices.

The Cuthbert Report found:

- * DoD Policies are routinely violated
- * DoD allotment systems facilitate the violation of insurance solicitation policies
- * A coercive and high pressure sales environment remains in effect
- * Deceptive Insurance sales practices continue unabated

- * Deceptive and coercive solicitation has a clear and present adverse effect on morale, discipline and unit integrity
- * Current personal financial education programs are inadequate
- * Insurance companies have unlawfully retained insurance premiums from cancelled allotments
- * State insurance regulators do not effectively protect military consumers
- * On-base insurance sales provide no value added to war fighting capacity

The Cuthbert Report recommended:

- * Eliminate on-base insurance solicitation.
- * Improve consumer protection surrounding the allotment system.
- * Conduct an inquiry into the disposition of unlawfully withheld allotment payments.
- * Improve personal finance training in all enlisted schools.
- * Establish minimum standards for all personal finance training conducted by non-DoD personnel.

DoD Commercial Solicitation Working Group: In response to the DoD IG and Cuthbert reports, the Assistant Secretary of Defense (Force Management Policy) established a DoD commercial solicitation working group in January 2001. The group recommended:

- * Establish commercial solicitation points of contact for each military service
- * Establish new policy to control third-party financial counseling

* Establish new policy to limit the use of commercial sponsorship to foster commercial solicitation.

2001 DoD IG Report: In response to the Cuthbert Report finding regarding insurance premiums being unlawfully retained by insurance companies following cancellation of a policy, the Department requested the DoD IG conduct an audit on insurance allotment premium refund processing procedures. The IG's report found:

Four Defense Finance and Accounting Service (DFAS) sites did not consistently process insurance company requests to cancel allotments and one DFAS site would not accept returned allotments.

In response, DFAS issued standardized guidance requiring the different sites to stop allotments when a properly documented request is received from an insurance company and to accept returned allotment payments.

Financial Education Policy: In April 2002, the Under Secretary of Defense (Personnel and Readiness), issued a policy memorandum that established parameters for non-governmental organizations to provide financial education training to Service members. The policy directed that any participating non-federal entity must be qualified as a 501(c) (3) non-profit organization and that the training be approved by a presidentially appointed, Senate-confirmed civilian official of the military department. The policy memo also reemphasized the

existing prohibition against agents of insurance or financial product companies presenting financial training

Initial Revision of DoD Directive 1344.7: After nearly a year of revision and information coordination, the Department forwarded proposed changes to DoD Directive 1344.7 to the military services for coordination and comment. Proposed policy changes included a requirement for junior enlisted personnel to obtain approval from their chain of command to purchase supplemental commercial life insurance. The insurance industry strongly opposed this proposed change and sought the involvement of Congress to block the reform effort. In November 2003, Public Law 108-136, Sec 586, required the Department provide Congress 30 days notification prior to implementing any changes to DoD personal commercial solicitation policy. To try to maintain the momentum, the Department also agreed to conduct two public forums. The first, to obtain public comment on existing DoD personal commercial solicitation policy, and the second, to obtain comment on any proposed changes.

Financial Readiness Campaign: In May of 2003, the Department, in cooperation with the Department of Treasury and the Securities and Exchange Commission, initiated a DoD Financial Readiness Campaign. The campaign established agreements with federal agencies and non-profit financial education organizations. Through the expertise and donated resources of these federal agencies and

nonprofit organizations, the Department has extended the capability of the Military Services to train and counsel Service members and their families on a range of personal financial issues, to include insurance and financial products. We have included a list of over 20 of the partner organizations on our quality of life portal: www.militaryhomefront.dod.mil, under “Financial Readiness.”

Examples of these collaborations include: the American Savings Education Council, which has provided over 57 public service announcements to the Armed Forces Radio and Television Service for broadcast overseas, and the InCharge Institute, which in collaboration with the National Military Family Association, has distributed 250,000 copies of their Military Money Magazine (developed for the military spouse) through Defense Commissaries and other high traffic areas on military installations.

First Public Forum: The first meeting to seek public comment on existing DoD personal commercial solicitation policy was held on August 22, 2003. Fifty-nine persons, mostly representatives from insurance and financial services companies, submitted comments. The primary themes of comments received were:

- * DoD's personal commercial solicitation policy is basically sound but needs to be better enforced.
- * DoD should not regulate insurance and financial products because that is a state and federal regulator responsibility.

Commercial Sponsorship Policy Revision: In March 2004, the Principal Deputy Under Secretary of Defense (Personnel and Readiness) issued new MWR program commercial sponsorship policy. An April 2004, policy memorandum directed the military departments to decline commercial sponsorship offers that do not reflect favorably upon DoD. In addition, this memorandum directed the military departments to ensure commercial sponsors do not use their sponsorship to obtain personal contact information for future solicitation without the written consent of the person to be solicited.

First GAO Audit: In March 2004, the Chairmen of the House Government Reform Committee and the House Armed Services Committee requested the Government Accountability Office examine DoD and military services policies and procedures for the marketing and sale of life insurance policies to military personnel and the processing of financial allotments for military personnel. This audit was requested in response to insurance industry complaints, which alleged officials at Fort Lewis and Fort Bragg had deliberately failed to process hundreds of life insurance allotments and military personnel were being directed to cancel their supplemental commercial life insurance. During this audit, the GAO conducted site visits at Fort Lewis, Washington, Naval Training Center Great Lakes, Illinois, Marine Corps Base Camp Pendleton, California, Fort Bragg, North Carolina, Lackland Air Force Base, Texas, and Fort Campbell, Kentucky. On August 2004, Public Law 108-287, Sec 8133, prohibited the Department from

amending or changing its personal commercial solicitation policies until 90-days after the GAO issued their final report. In its final report, issued on June 29, 2005, the GAO could not substantiate the original allegations pertaining to Fort Lewis and Fort Bragg, but made three recommendations to improve DoD personal commercial solicitation policy and two recommendations to improve insurance allotment coding and processing. This audit did not examine the suitability of insurance and financial products being sold primarily to military personnel or how they were sold. The Department partially concurred with the GAO's first two recommendations and concurred with the other three. The first partial concurrence concerned a GAO recommendation that the department develop and maintain a DoD-wide searchable database to record all violations of DoD personal commercial solicitation policy. The Department has developed and maintains a current list of companies and agents that are barred from soliciting on an installation and believes that this list is more useful and appropriate than the one the GAO recommends. In the second partial concurrence, the GAO recommended all violations of DoD solicitation policy involving insurance or financial products be reported to state or federal regulators. The Department believes only violations that involve licensing, compliance with state or federal laws or regulations, or that result in the company or agent being barred from an installation, should be reported to regulatory authorities. The Department believes reporting only actionable violations to state and federal regulators will serve everyone's best interests.

New York Times Investigative Reports: Beginning in July 2004, The New York Times published a series of investigative reports that focused much needed attention on the DoD personal commercial solicitation issue. Among other things, the reports highlighted DoD policy violations by several insurance companies soliciting Army trainees at Fort Benning, Georgia and potentially costly periodic payment plans marketed by First Command Financial Planning, Inc., mostly to military personnel. The Department took these reports very seriously. I asked the Assistant Secretary of the Army (Human Resources) to advise my office of actions taken at Fort Benning and to recommend whether or not the findings warranted Service-wide or DoD-wide action. Fort Benning has conducted detailed proceedings and has taken decisive action locally. I understand that the Fort Benning commanding general's recommendation for broader actions is currently at Department of the Army headquarters for legal review. In addition, I requested the Military Departments report all documented personal commercial solicitation policy violations that have occurred since January 1, 2000 and to provide quarterly update reports. This information is used maintain a list of insurance and financial product companies and agents currently barred from soliciting on a DoD installations that is posted on our DoD Commanders Page web site. Following enforcement action by the National Association of Securities Dealers (NASD) and the Security and Exchange Commission (SEC) against First Command Financial Planning, I met with First Command's President and Chief Executive Officer, who informed me that they have ceased selling, and will no longer sell, periodic

payment plans. The Department has collaborated with the National Association of Insurance Commissioners on an educational brochure to assist military personnel considering the purchase of supplemental commercial life insurance. This brochure includes contact numbers for Insurance Commissions in all fifty states and the District of Columbia. The Department's Financial Readiness Campaign is educating our military Service members to closely examine products being offered and to seek legal advice before signing contracts. This program is intended to make Service members and their spouses better informed, more discriminating consumers.

Second GAO Audit: Mr. Chairman, in late 2004, you and the ranking member of this committee requested the Government Accountability Office review the sale of financial products to military members. Specifically, the GAO was asked to “examine the types and variety of financial products” commonly marketed to military members; regulatory oversight by insurance and securities regulators and DoD; the regulatory oversight and consumer protections afforded to military personnel compared to the general public; and how regulators have assessed the suitability of such products. The Department thanks this committee for its concern, not only in how, where, and when insurance and financial products are being sold to military personnel, but what kinds of products are being sold. This is the first time the suitability of insurance and financial products sold primarily to military personnel has been examined. This focus is much needed, long overdue,

and much appreciated. The recommendations in the GAO's draft report, issued on September 29, 2005, are reasonable and appropriate.

DoD Instruction on Personal Financial Management Education: The Military Services have established training for Service members on a list of topics that includes insurance, saving, and investing as part of their initial orientation in the military. DoD Instruction 1342.17 was released in November 2004, providing the first comprehensive policy document describing personal financial education and counseling requirements for Service members and their families, to include the already established training being delivered to junior Service members. The instruction has given us an opportunity to reinvent this training by requiring junior Service members be able to show their competence in applying basic financial principles on a wide range of financial topics, to include insurance and savings. In addition, first time supervisors are to demonstrate their understanding of policies and practices designed to protect junior Service members within their command/supervision, to include policies and practices concerning commercial solicitation. We are currently working on the implementation of a strategic plan for Personal Financial Readiness that includes establishing the evaluation tools needed to ensure these important policies are being applied.

Strategic Plan for Personal Financial Readiness: As part of the answer to a GAO study on personal financial management programs (GAO-05-638R), the

Department has crafted a strategic plan that incorporates the steps to ensure the implementation of DoD Instruction 1342.17, and the resources/capabilities of the Financial Readiness Campaign. A key new component of this strategic plan is the program being developed by the National Association of Securities Dealers (NASD) Foundation. This program, funded through the residual proceeds of the settlement with First Command Financial Services, seeks to give Service members and their families confidence to management their financial resources, by gaining their attention through an awareness campaign and providing unbiased educational resources to support their decision making needs. The NASD Foundation program includes the capabilities and resources of several of the existing Financial Readiness Campaign partners, increasing the impact of the overall effort.

Second Public Forum: The Department's proposed policy changes were published in the Federal Register on April 19, 2005. The substantive changes focused on financial education, oversight, and enforcement. They incorporate the financial education, commercial sponsorship, and violation reporting guidance I mentioned previously. We also include a new commercial solicitation evaluation form designed to make it easier for installations to detect and investigate solicitation policy violations. The Department hosted a second open forum on May 6, 2005, to obtain public comment on the proposed changes. Twelve persons, representing various insurance, financial service, veteran and military fraternal organizations, provided oral comments. In addition, thirty-three other individuals

and organizations submitted written comments by the June 20, 2005 deadline. A total of seventy-nine specific recommendations were received during the second public forum and comment period.

Proposed Policy Changes: The Department has carefully considered all seventy-nine recommendations. We have accepted thirty-one and partially accepted nine of these recommendations for inclusion in our final policy revision. Many of these additional changes clarify questions of interpretation of existing policy or new policy to cover new technologies. Examples include telecommunications aspects of solicitation, electronic versus paper pay and allotment transactions, and the use of direct deposit versus military pay allotment forms. Other changes include policies to incorporate our responses to the GAO's recommendations and provisions in pending legislation the Department supports and expects will become law. These include solicitation policy violation reporting and record keeping and enforcement of the military pay allotment cooling off period. Our proposed final policy is currently being reviewed for legal sufficiency by the DoD General Counsel.

In conclusion, the Department does not intend to prevent honest companies from doing business on DoD installations but we must take prudent steps to protect military members from superfluous products and predatory sales practices. Problems associated with on-base commercial solicitation of military personnel have been ongoing for many years. Prior attempts to implement new policies to

improve DoD's oversight and enforcement met with resistance on many fronts.

We believe now, with the public's attention and the support of this committee and the Senate and House committees on armed services, long overdue changes to protect the financial well-being of military members and their families will finally become reality. Any further delay is unacceptable. Our men and women in uniform, and in harm's way everyday, deserve no less.