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Needing Cash, Veterans Sign Over Pensions

By DIANA B. HENRIQUES

Kevin D. Jones, a retired Army veteran, was desperate for money. He wanted to get his wife out of the Philippines quickly after her home had been destroyed in a bombing. But she was being delayed as she waited for immigration papers to come through that would allow her to join him in North Carolina.

His military contacts, cultivated during a 25-year career that included duty in Bosnia and Kosovo, helped speed the paperwork. And a Florida financial services company that he had found through an advertisement in The Army Times helped him raise the money to fly to Manila, resettle his in-laws and return home with his wife.

He was too frantic, he said, to consider the cost of that money. But it was steep. In exchange for $19,980 after fees and insurance, Mr. Jones signed over his $1,000-a-month military pension for the next five years, a total of $60,000. That is the equivalent of paying interest at a rate of 56 percent a year.

Federal law prohibits retired military people from signing over their future pension payments to others. The companies offering these deals say they are arranged to avoid that restriction. But two federal bankruptcy judges ruled this year that deals like Mr. Jones's, in which veterans in need of quick cash give up their future pensions for a small fraction of their value, do in fact violate that law.

But the law has not been enforced or consistently interpreted. Indeed, the Defense Department's payroll centers routinely handle the paperwork that diverts the pension payments, even though veterans are warned "to exercise caution in these arrangements," a Pentagon spokeswoman said.

As a result, a small but persistent band

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Derek Anderson for The New York Times

Kevin D. Jones, a retired Army veteran, needed cash to get his wife, Hynee, out of the Philippines. He pledged his future military pension to raise the money.

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of financial companies using military-sounding names continue to offer these so-called pension advances to retired military people over the Internet and in military newspapers.

Consumer lawyers are getting calls from people facing lawsuits and bankruptcy after signing over future pension payments to these companies. No one is certain how many veterans have been affected, but the potential market is substantial. In the last year, roughly 1.7 million military retirees received about $33 billion in pension payments from the Pentagon.

None of these practices are a surprise to either the Pentagon or to Congress. In September 2002, the Senate passed a bill that would have penalized companies offering military pension advances, but the effort stalled in the House. Veterans' groups have warned members about these deals. And in May 2003, the National Consumer Law Center, a nonprofit group in Boston that has worked on consumer protection issues for more than 35 years, condemned the cash advances as illegally disguised loans that do not comply with federal truth-in-lending laws.

Despite these warnings, neither the Pentagon nor Congress has clearly defined these deals or decided which laws apply to them.

The Pentagon does not see pension advances as examples of retirees signing away their future pensions, which it acknowledged would be illegal. Instead, to the Pentagon, "these agreements appear to be loans based on retired pay as collateral," said Lt. Col. Ellen Krenke, a spokeswoman for the Defense Department.

The companies making the pension advances, however, flatly deny that they are loans of any kind.

In contrast to the enforcement gap that arises from these dueling definitions, Congress adopted rules a year ago to protect veterans' disability payments from deals like these. Now, Senator Bill Nelson, the Florida Democrat who co-sponsored that law, is "shaking the tree" at the Defense Department "to get some idea of what's going on," a senior aide to Senator Nelson said recently.

In October, the National Consumer Law Center organized a band of lawyers, including the former governor of Georgia, to file a suit that seeks to confirm the fundamental illegality of buying out military pensions through arrangements like the one Mr. Jones made.

"It seems like this practice falls between the cracks of what the military and the veterans' organizations normally deal with," said Steve Tripoli, a consumer advocate with the Boston group.

Ric Feld/Associated Press

Roy Barnes, the former Georgia governor, is challenging military pension advances in court.

Chris O'Meara/Associated Press

Senator Bill Nelson is pressing the Defense Department for information on military pension advances.

The group's class action on behalf of three plaintiffs, filed in federal court in Atlanta, names as defendants C & A Financial Programs of Stuart, Fla., and Advanced Funding Inc., a Maryland company that acted as a broker for C & A.

Those were the companies Mr. Jones dealt with during his family crisis in July 2001, when his in-laws were caught in the cross-fire of sectarian violence that had plagued their hometown in the Mindanao province in the Philippines. In August 2003, after repaying $26,000, he directed the Pentagon to stop sending his pension to the Florida company because, he said, he needed the money to support his wife and newborn son. C & A responded by going to court in its hometown in Florida to sue him and a number of other veterans.

Like Mr. Jones, the plaintiffs in the consumer law center's case signed on for pension advances whose repayment terms, expressed as annual interest rates, ranged from 45 percent to 76 percent.

The suit argues that these deals are actually disguised loans that failed to comply with federal truth-in-lending laws and state interest-rate caps, said Stuart Rossman, the litigation director at the center. "But if I'm wrong," he added, "then it's an assignment of a military pension, and that violates the law, too"

Teri Belcher, a lawyer for Advanced Funding, of Glen Burnie, Md., said the company would not comment on the case.

Leif J. Grazi, a lawyer for C & A in Stuart, said that the company had not offered any new military pension deals for several years because it did not find them profitable. But its existing deals are neither improper loans nor illegal pension assignments, he said. "We are just purchasing a stream of payments," he said, adding that other companies were probably handling the business C & A had turned away.

The Pentagon sees pension advances as loans, but companies offering them say no.

"If the sale of these assets is improper, why is it that the United States allows them to advertise on the Internet and in the military newspapers?" Mr. Grazi said. "You'll see a million ads every month."

Roy Barnes, the former Georgia governor who has joined the suit against C & A, also wonders why the Defense Department allows pensions to be diverted to third parties — and, in fact, handles the paperwork for the payroll deductions, called allotments.

"The easiest way to cut off these companies is for the Defense Department to stop those allotments," Mr. Barnes said. "That would get their attention."

The fundamental issues raised in the suit against C & A and Advanced Funding have not deterred other companies engaged in this business.

Carl Bachmann founded and runs Veterans First Financial Services in Battery Park, Va., which also offers military pension advances. The suit would not affect his business, he said, because his company offered better terms and clearer disclosure than

did the companies cited in court. "There is a right way to do this business, and a wrong way to do this business," Mr. Bachmann said. But there is no doubt, he said, that the business itself is not prohibited by military pension laws.

Executives at Structured Investments Company, which offers pension advances through a unit called Retired Military Financial Services, said they were not familiar with the consumer law center's case. But Steven P. Covey, a managing member of Structured Investments, said that Retired Military's business model was legal and that its rates were reasonable.

"Firms that charge outrageous interest rates and take advantage of financially unstable pensioners are completely at the other end of the spectrum from our company," he said. "We look for a long-term relationship with our pensioners."

Some bankruptcy judges have upheld the right of Structured Investments to claim future military pension payments. But none of those judges addressed how their decision squared with federal statutes — Sections 701 and 101 of Chapter 37 of the United States Code — that prohibit assignments of future military pensions.

Judge Arthur B. Federman of Bankruptcy Court in Kansas City, Mo., observed in a footnote to a July 2002 decision that there were "limitations on an individual's ability to assign his or her right to receive monthly pension benefits," citing the law governing military pensions. But the debtor did not raise the argument, the judge said, "and the court will not address it."

Two other bankruptcy judges, in cases decided this year, did address the special nature of military pensions, and in those cases Mr. Covey's company lost.

Judge James G. Mixon in Little Rock, Ark., ruled in July that the sale of future military pension payments was "specifically prohibited by federal law," which, he said, "unambiguously provides" that any such assignment is invalid.

And in August, Judge Philip H. Brandt in Tacoma, Wash., ruled that the company's claim on a retired Navy enlisted man's pension violated the federal pension statutes. While the company's contracts say the deal is not an assignment, Judge Brandt wrote, "in the words of Gabby Hayes, 'Sayin' it don't make it so.' "

But most veterans cannot afford to challenge the companies' claims in court, especially when the court is far from their homes, said Lynn Drysdale, a member of the plaintiffs' team suing C & A and a staff lawyer at Jacksonville Area Legal Aid. Instead, they wind up paying default judgments without ever making the argument that the debts were illegal and therefore uncollectible, she said.

That is what happened to Edgar J. Basford III, known as Jack, who retired from the Navy as a senior chief petty officer in 1993. In May 2001, facing divorce expenses, he got $26,000 from C & A, after fees and insurance, in exchange for signing over his $1,242-a-month Navy pension for five years, a total of $74,520. After repaying almost $35,000, he fell behind on the debt and was sued for the rest of the money.

"I didn't have the money to fly down to Florida to defend myself," Mr. Basford said. The $46,000 judgment the company obtained was the sole reason he filed for bankruptcy last June, he said. But he did not challenge the legality of the debt and wound up agreeing to pay $500 a month to C & A for more than seven years.

Mr. Jones, who now lives in Eldridge, Iowa, said newly retired veterans like himself were especially vulnerable to a marketing approach that relies on reassuring names like Retired Military Financial Services and advertisements in publications that veterans trust, like The Army Times.

Moreover, said Mr. Jones, who joined the Army at age 18, "you spend your whole life in a culture where everything is grounded in clear procedures and high standards," and where instructions are followed without question. "But in the civilian world, you have to question everything — everything."

Now, he added, "I'm learning that."

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Seeking Quick Loans, Soldiers Race Into High-Interest Traps

By DIANA B. HENRIQUES

From Puget Sound in the Northwest to the Virginia coast, the landscape is the same: the main gate of a large military base opens onto a highway lined with shops eager to make small, fast and remarkably expensive loans, no questions asked.

There are more than 200 of these quick-loan outlets around the Navy bases of Norfolk and Hampton in Virginia; almost two dozen around the Marine Corps base at Camp Pendleton in California; and three dozen within three miles of the Army's

LENDERS AT THE GATE

Debtors in the Barracks

Fort Lewis in Washington State.

So the young Navy petty officer and her husband in the Puget Sound area had no trouble finding a willing lender when they wanted to borrow money between paychecks to show visiting relatives a good time.

Getting the loan was fast and convenient, too. To borrow $500, they wrote a $575 check to the lender, to be cashed on their next payday, less than two weeks away. But in accepting that instant loan, the couple, who would talk about their experience only if their identities were not disclosed, were also agreeing to pay a staggering annual interest rate of more than 390 percent. By contrast, a loan from a credit union would have taken several days or longer but cost no more than 18 percent.

Repaying their fast-money loan took a big bite out of the couple's next paycheck, leaving them short when other bills fell due. So they borrowed again, and again, until they had raised about $4,000 through more instant loans, some of them with official-sounding names like Military Fi-

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nancial Network.

The cost of this new money also mounted, ranging as high as 650 percent when expressed as an annual percentage rate, as the law requires. And as the couple continued to fall behind, they borrowed even more, from other kinds of expensive lenders.

By October, just days before the petty officer had to ship out for duty in the Persian Gulf, the debts had grown so large that the couple and their young children were about to lose their home to foreclosure.

Hardships like this are becoming more common in the military as high-cost easy-money lenders increasingly make service members a target market. As a result, many military people have become trapped in a spiral of borrowing at sky-high rates that can ruin their finances, distract them from their duties and even destroy their careers. The military, for its part, has done little to deny these lenders access to the troops, relying instead on consumer education.

At least 26 percent of military households have done business with high-cost instant lenders, an analysis of credit industry studies by The New York Times shows.

"It is getting worse, really — much, much worse," said Liz Kosse, director of a Washington State office of the Navy-Marine Corps Relief Society, a nonprofit group that helps service members like the petty officer.

When the sailor and her husband, a government employee, took out their first triple-digit loan, Ms. Kosse said, "none of this — the risks to their home and their livelihood — had ever occurred to them."

The couple asked Ms. Kosse to speak on their behalf because, she said, they were concerned about losing their security clearances and possibly their jobs if they were identified. The military considers excessive debt a security risk, saying it leaves a service member vulnerable to financial inducements to commit espionage.

Typically young, financially naïve and often short of cash, military people present a lucrative customer base for high-cost instant lenders, known as payday lenders, as well as more traditional consumer finance outlets, whose rates can exceed 30 percent.

In the 37 states that allow them — up from 28 five years ago — payday lenders have opened a disproportionate number of outlets on the edges of military bases, a new study has found. And in the 13 states that bar them, payday lenders have nevertheless cropped up around bases in disguise, posing as catalog retailers or Internet cafes, regulators say. Besides sometimes adopting military names, they frequently advertise in base newspapers or operate online with special links to attract military customers.

The Community Financial Services Association, which represents about 60 percent of the payday industry, says its members provide a valuable service for people who need cash for emergencies. And the short-term loans, if paid off promptly, can cost less on an annual basis than a bounced check or a credit card advance, the group contends.

Steven Schlein, a spokesman for the group, denied that the industry specifically pursued military consumers. He said they made up only 2 to 3 percent of all payday loan customers. Most are young middle-income civilian families, he said.

Still, in response to complaints from the armed services, the association has set up an advisory council led by a retired Army general, and it has drafted a voluntary code of "military best practices" for payday lenders.

As payday lenders have gained ground, federal efforts to protect military people from high interest rates have had little success. A longstanding federal law, updated last year as the Servicemembers Civil Relief Act, requires that the interest rate on any debt that service members took on before they enlisted must be reduced to 6 percent when they go on active duty.

But there is no limit on the rates they can be charged after they enlist; a bill that would have imposed one stalled and sank in Congress this fall. And few if any high-cost lenders — even those repeatedly in trouble with regulators — have been declared off limits by the Pentagon or local commanders, military lawyers say.

But many military authorities say service people need more protection, especially in wartime. Sudden deployments can keep them from paying off debts. And besides being denied security clearances, service members can be discharged or even court-martialed for defaulting on debts.

Then there is the problem of distraction. "The last thing you want," said a retired Navy captain, Chalker W. Brown, now a vice president of the VyStar Credit Union in Jacksonville, Fla., "is a young sailor programming a Tomahawk missile in the Persian Gulf who is worrying about whether his car is being repossessed back home."

Armies of Debtors

The naval petty officer in Washington State managed to hang on to her home in the Puget Sound area; it was rescued by the Navy-Marine Corps Relief Society. But she could still lose her job. If she does, hers would not be the first military career ruined by payday lending, military officials say.

"I can remember dozens of cases where I or one of my legal officers had to sit down with young soldiers to try to help them dig their way out of a situation like that," said Lt. Col. Russell H. Putnam, a retired Army legal officer who is now chief of client services at Fort Stewart in Hinesville, Ga.

In a Pentagon survey in April, about 7 percent of service members said they had used payday loans in the previous year. But an analysis of industry studies casts doubt on that number.

Stephens Inc., an investment bank that tracks the payday industry, estimated that at least nine million households had used payday loans in 2002. Gregory Elliehausen, senior research scholar at the Credit Research Center at Georgetown University, said that a survey he did found that about 2 percent of payday loan customers were in the military.

It would be reasonable to conclude, he said, that 2 percent, or 180,000, of those nine million households are military families. That would be just under 26 percent of all military households, based on Pentagon personnel figures.

The interest rates they are paying are stratospheric. In Washington State, for example, the annual rates on a two-week payday loan are capped by law at just above 391 percent, but the effective annual rate on shorter-term loans is even higher, and Internet lenders are not subject to those limits. Some payday lenders near military bases in other states have charged annual rates as high as 780 percent, court exhibits show.

And yet business is booming, industry analysts say. From 1999 to 2003, the total payday loan volume nationwide increased fourfold, to $40 billion.

The presence of payday lenders on the doorsteps of most military bases across the country may be more than accidental.

Preliminary research by Christopher L. Peterson, a law professor at the University of Florida, and Steven M. Graves, a geography professor at California State University, Northridge, suggests that payday lenders are deliberately setting up shop close to military bases. The researchers are looking at the density of payday lenders around bases in 15 states and are finding that in most places there are far more payday lenders within five miles of the base than would be statistically likely.

"Their locational strategy suggests very, very strongly that they target military families," Professor Graves said.

He pointed to Oceanside, Calif., the home of Camp Pendleton. "That ZIP code has more payday lenders than any other ZIP code in California," he said.

Lenders in Disguise

No military bases in New York State were included in the professors' study, they said, because payday lending is illegal in the state. But that came as news to Tonya Duncan, whose husband is completing a year in Iraq with the Army in the 10th Mountain Division, a unit based at Fort Drum in Watertown.

Mrs. Duncan said she had borrowed money "about four or five times in the last six months" from N.Y. Catalog Sales, a local business on the edge of a mall parking lot near the base.

The catalog sales outlet is typical of a motley collection of high-cost lenders who regulators say are operating in disguise, chiefly in states like New York and North Carolina, which prohibit payday loans.

Their role as payday lenders seems clear to customers like Mrs. Duncan. To borrow $300 in cash from N.Y. Catalog Sales, she said, she writes a check for $390, which the catalog sales shop will not cash until payday. But there is a twist: in addition to $300 in cash, she gets $90 in gift certificates to spend on merchandise shown in a dog-eared catalog chained to the counter.

"So it's a loan, yes, but it's a loan with no interest," she said.

Stacy Kruse, another Fort Drum spouse who used to borrow regularly from N.Y. Catalog Sales, has a different view of the certificates. "We just threw them out," she said. "I looked at the catalog and it's just junk."

Besides, she said: "Who on earth would buy gift certificates to order stuff to be delivered months from now, when you can buy

better, cheaper stuff at Wal-Mart the same day? Obviously, you go there to get a loan."

Eliot Spitzer, the New York attorney general, agrees. In September, his office filed a lawsuit accusing N.Y. Catalog Sales and the man listed as its "principal," an Alabama businessman named John A. Gill Jr., of making "unlawful and deceptive" loans.

Mr. Gill, in an affidavit, denied that he had a stake in the company. The store's regional manager, the wife of a soldier at Fort Drum, insisted in court filings that the stores did not make loans. The case is pending.

About 1,200 miles south of Fort Drum, in a string of storefront shops near the Jacksonville Naval Air Station in Florida, is another small business set up by Mr. Gill.

It used to do business as Florida Catalog Sales and is now called Florida Internet. One customer was Petty Officer Mark L. Foster Jr., 21, a helicopter mechanic at the base.

Last spring, just after signing a lease on an apartment, Petty Officer Foster was sent to sea earlier than he had expected. Unable to arrange for his rent to be paid in his absence, he said, he was evicted. The resulting expenses drove him to seek a $500 loan from Florida Internet.

The paperwork he signed gave him an "instant cash rebate" of $500. But it also obligated him to buy a year's worth of Internet access at the extraordinary price of $100 every two weeks. To cancel, he had to pay back $600 — the $500 "rebate" plus the initial $100 in "usage fees."

"I didn't want Internet access; I never used it," Petty Officer Foster said. All he wanted was the money, he said. He quickly realized that he could wind up paying as much as $2,100 in interest on his $500 loan, an annual interest rate of 420 percent. So he went to the local office of the Navy-Marine Corps Relief Society, which gave him an interest-free loan to pay off his $600 obligation.

Regulators in Florida contend that Florida Internet is an illegally disguised payday lender. In July, state prosecutors filed criminal racketeering charges against the company; similar charges were filed against Mr. Gill in September. Both he and Florida Internet have denied the charges and are awaiting trial.

Mr. Gill's lawyer, O. Hale Almand of Macon, Ga., would not comment "because of the pending criminal charges," he said.

Stars and Stripes That Sell

William H. Kennedy, a retired Navy captain and former commanding officer of the aircraft carrier Saratoga, remembers growing more upset the more he examined a traditional loan made to a sailor at the Mayport naval station in Jacksonville, Fla.

The sailor, troubled by the loan's terms, had come to Captain Kennedy in his new role as director of the local Navy-Marine Corps Relief Society office.

Captain Kennedy was bothered, for one thing, by the high annual interest rate: more than 32 percent. Then there were the extra fees: more than $420 on top of the $1,550 loan, most of them for credit insurance policies that the sailor, who had insurance through the military, probably did not need, Captain Kennedy said. And the extra charges were added to the loan, so the sailor was also paying interest on them.

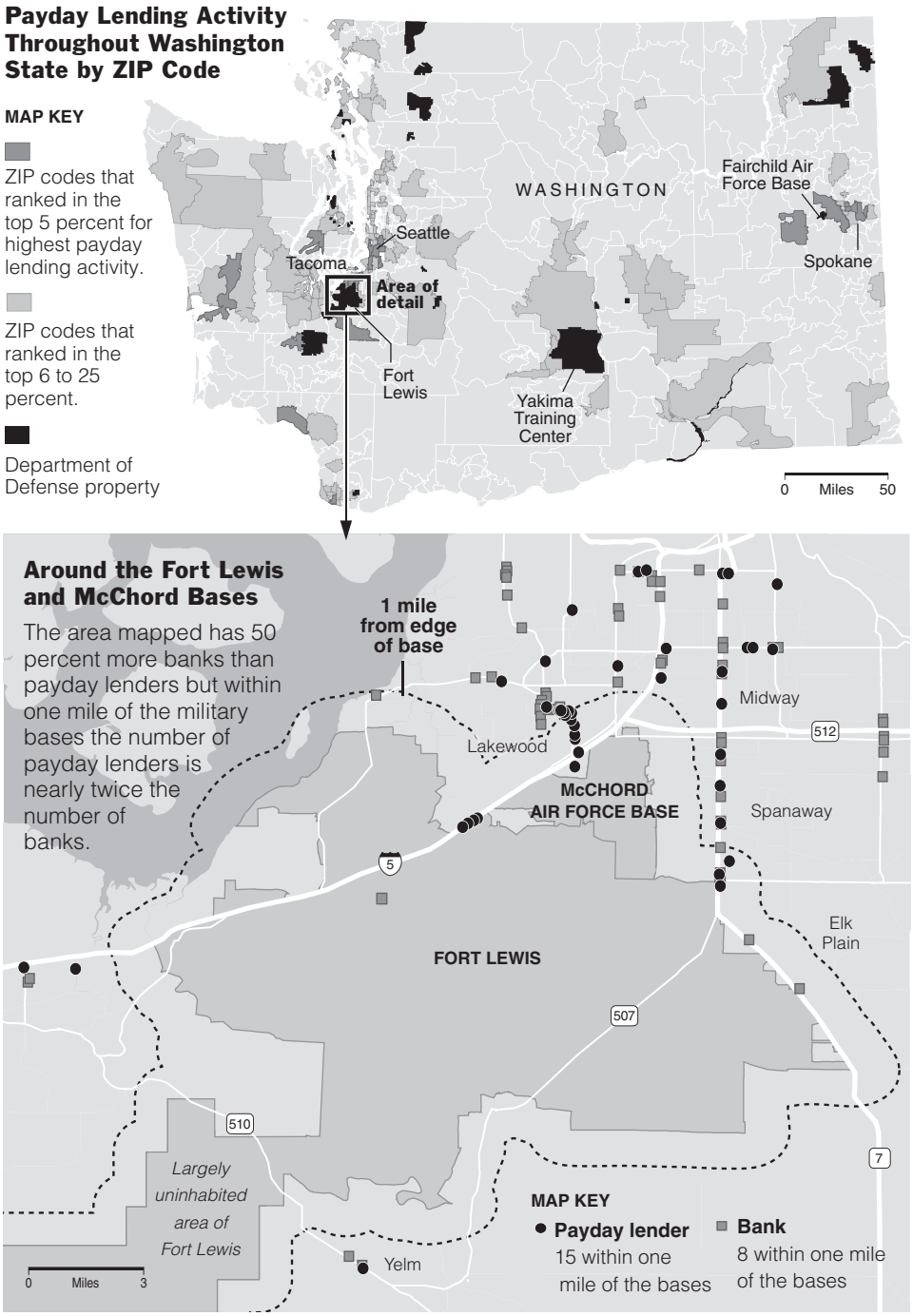
But what really made Captain Kennedy angry was that the company that had made this loan and many like it, Pioneer Services of Kansas City, Mo., had been endorsed by an influential naval figure, Robert J. Walker, a retired master chief petty officer of the Navy who is a consultant to Pioneer.

Even military people who avoid the triple-digit payday lenders are not necessarily home free. Other lenders frequently use people with military affiliations to promote loans with high rates, fees and insurance premiums that drive up the cost of credit.

"Obviously, they're better than the payday

Going Where the Troops Are

Analysis of 13 states estimating the intensity of payday lending per ZIP code found disproportionally high payday lending activity near military bases.
Payday lending activity was estimated using the total number of payday lenders per capita and the ratio of payday lenders to other lenders (i.e., banks) per ZIP code.



Sources: Data and maps from Dr. Steven M. Graves, Department of Geography, California State University, Northridge, and Dr. Christopher Peterson, Levin College of Law, University of Florida.

The New York Times

lenders,'' Captain Kennedy said of these companies, ''but these are still very high fees and rates.''

The credit insurance sold to most Pioneer borrowers is ''a waste of money,'' said Jean Ann Fox, consumer protection director for the Consumer Federation of America. Most military people have ample insurance, she said, and if they want more to cover a debt, ''there are far less expensive ways to get it.''

Mr. Kennedy did not stew about Pioneer, he said. ''I complained to Bob Walker personally,'' he said, ''because I just can't understand why he would be promoting loans like this for service people.''

Pioneer Services, which also offers mortgages and insurance, has served about 650,000 military families over 20 years, according to Joe Freeman, its director of corporate communications. Its president, Patrick McCarty, is a second-generation West Point graduate. Its paid consultants also include Sgt. Maj. Jack L. Tilley, who was the top enlisted officer in the Army until his retirement last January.

The company believes that its loans and credit insurance products are reasonably priced, Mr. Freeman said, and its retired military consultants share that belief.

''As men who have worked with and for enlisted personnel throughout their distinguished military careers, they believe Pioneer responsibly and ethically provides needed financial services and educational programs to help military families,'' Mr. Freeman said, speaking on their behalf.

Pioneer says it has lobbied against the spread of high-cost payday lending and supports a host of military charities and events. But its highly effective ''affinity marketing'' program — using people with military affiliations to help promote its business — backfired in Jacksonville, where Pioneer had opened an office in early 2001.

Within 18 months, Pioneer had drawn fire from Philip A. Mauffray, who was the command master chief for the Navy's southeast regional operations until his retirement last year. In June 2002, Master Chief Mauffray attended a Navy conference at which Master Chief Petty Officer Walker and Mr. McCarty were given time on the agenda to promote the company, a sponsor of the event.

''They shouldn't have been there,'' Master Chief Mauffray said. In his view, their role gave the impression that the Navy endorsed their business. ''I made it clear that this was wrong,'' he said.

Mr. Freeman said he was not aware of any objections to Pioneer's role at conferences.

But the odd thing about Pioneer's entry into Jacksonville was that it did not actually plan to make any loans there and, indeed, was not licensed to do so.

Instead, Mr. Freeman said, the Jacksonville office referred loan applicants to a Pioneer office in Georgia, where Pioneer was licensed; or it steered customers to a computer kiosk linked to its Internet loan service, which is licensed in Nevada. Both states permit higher loan rates than Florida allows.

By early 2003, Captain Brown, the credit union executive, had started to see a stream of sailors coming in to refinance Pioneer loans, he said, many of them with rates of more than 30 percent. At least half of those sailors qualified for credit union loan rates of no more than 18 percent, he said.

Oscar Sosa for The New York Times

Petty Officer Mark L. Foster Jr. learned firsthand how onerous payday loans could be.

''I called the state attorney general's office,'' he said.

Pioneer confirmed that it was the subject of a state inquiry in Florida and is also providing information to Georgia regulators.

Pioneer closed its Jacksonville office last March. The decision, Mr. Freeman said, was based on low levels of business and was taken months before the company learned of the state inquiry.

Few Rules, Few Solutions

After a legislative battle, payday lenders were banned from Georgia last May, largely because several military officers had testified before state legislators about how payday loans harmed their troops.

Such activism by officers is rare, however; the military has traditionally tried to address high-cost debt through financial literacy classes. But teaching 19-year-old recruits to analyze complex credit costs is ''far more of a challenge'' than the military realizes, said Mr. Peterson, the law professor. ''If they really want to protect military consumers,'' he said, ''the money spent on education would be far better spent on enforcement and lobbying to end these practices.''

But the military does not have much to enforce. The law that puts a 6 percent cap on pre-enlistment debts does not address debts incurred after enlistment. Nor did Congress take up a bill that Representative Sam Graves, a Missouri Republican, submitted in October to cap post-enlistment rates at 36 percent.

The payday industry says military leaders should simply put unscrupulous lenders off limits. That approach is supported by the National Consumer Law Center.

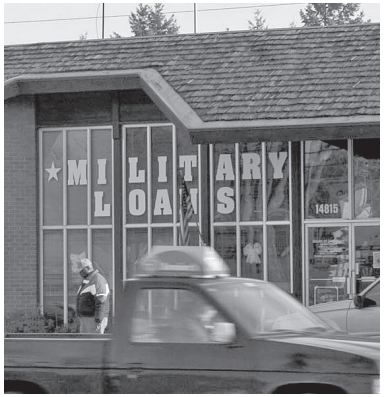
But such bans have rarely if ever been used against payday lenders, Pentagon lawyers said, even when they face serious legal problems like Mr. Gill's.

That leaves the industry's voluntary code of best practices. It urges lenders to refrain from contacting a debtor's commanding officer and to stop all collection efforts when a service member leaves for combat or combat support duty.

''But enforcement is the key,'' said Maj. Gen. Steve Siegfried, a retired Army officer who helped draft the code. ''If you don't enforce it, it's just a pretty plaque on the wall.''

The industry association can do little to ''get rid of jackleg outfits who prey on military people,'' he said. But he seemed startled when asked whether the military should disqualify lenders not complying with the code.

''We would applaud the services if they could do that,'' General Siegfried said. ''But I don't think they will.''



Photographs by Peter Yates for The New York Times

About three dozen quick-loan outlets are near the Army base at Fort Lewis, above, in Washington State. Some bases attract even more outlets: there are more than 200 near the Navy bases in the Norfolk, Va., area.

The New York Times

NEW YORK, SATURDAY, OCTOBER 2, 2004

Inquiry Stymied on Company With Air Force Ties

Files Show Influence of Complaint by Financial Firm

By DIANA B. HENRIQUES

If you're a military officer, you can't miss First Command Financial Planning of Fort Worth.

It sells life insurance and investments to young officers serving around the world. Many of its executives and most of its agents were officers once themselves, and they let you know it. A parade of retired generals and admirals serve on its advisory boards. With more than 300,000 customers, virtually all of them current or former officers, the company depends on the military for its very existence.

And in a smaller way the military relies on First Command. The company, like others in this market, has long sponsored popular events like the Marine Corps Marathon and the Air Force talent show, Tops in Blue.

So First Command was not happy a year ago when it discovered that a legal office at Air Force headquarters had put out a notice asking military lawyers in the field for feedback on "reports of possible unethical or overly aggressive" sales practices by the company's agents. The notice also raised questions about the suitability of the company's core product, an archaic and expensive type of mutual fund with sales fees that eat up half of an investor's first-year contributions.

First Command fought back: it complained to the second- most-powerful general in the Air Force. And it was heard.

The New York Times has found that within three weeks of the legal office's posting, the Air Force issued a retraction, which it had allowed the company to edit. It gave the company a letter of exoneration, signed by the Air Force's top legal officer, after letting the company edit that, too. The Air Force legal staff stopped cooperating with a securities industry investigation into the company's practices and products. And the Air Force effectively abandoned a broad inquiry of its own, letting local base authorities handle complaints.

One complaint was about a First Command agent who had made veiled threats against a young officer in Charleston, S.C., suggesting he could be court-martialed or sued for criticizing the company in an e-mail message.

First Command's success in its face-off with Air Force lawyers was a stark illustration of how a company with strong military connections can influence the very people who are supposed to monitor its sales activities on bases.

One of those who felt that influence was Thomas L. Farmer, who, from his Pentagon office, worked on the First Command inquiry for the Judge Advocate General's Corps, which oversees the administration of justice and ethics for the Air Force. Mr. Farmer, who was a major at the time but has since left the service, said that neither the Air Force nor

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the company has acknowledged the chilling impact that the episode, especially the company-edited retraction, has had in the ranks.

"Most JAG officers would take it as an endorsement of First Command," Mr. Farmer said of the retraction. "Our being rebuked sends a message out to the field that 'well, they're not going to be able to help us' when it comes to this company." He added, "When we tried to tackle it, First Command could contact a four-star general and stop us, to the point where First Command is helping to write official Air Force material."

Mercer Bullard, president of Fund Democracy, an advocacy group for mutual fund shareholders' interests, said the episode underscored the danger of relying on the military to police the sale of financial products on bases.

"The JAG Corps is the most independent, most likely agency in the military to stand up to these companies," said Professor Bullard, who teaches law at the University of Mississippi. "If the JAG Corps can't do it, no one else in the military will be able to."

First Command maintains that in appealing to the top ranks of the Air Force, it was seeking fair treatment, not special treatment.

"What was put in that posting was inaccurate and unfair and harmed our company," said Lanny J. Davis, a Washington lawyer and former special counsel to the Clinton administration who represents the company. "Because we were concerned with getting a correction quickly, we couldn't afford the luxury of going up the chain of command to get a remedy. So we went as high as we could, to get it immediately."

The company went as high as Gen. T. Michael Moseley, the Air Force vice chief of staff. An Air Force spokesman, Col. Gary Halbert, said the general's role was "fairly routine," intended only to ensure that the company got a prompt and appropriate response. General Moseley, the colonel said, did not intend to discourage the Judge Advocate General's Corps from enforcing the rules that govern the sale of insurance and investments on military bases.

General Moseley himself said in a written statement: "Fighting and winning the global war on terrorism and providing support for our airmen are my top priorities. We have made and will continue to make every effort to protect our airmen from unscrupulous salespeople and fraudulent products."

Straight to the Generals

Three events prompted Mr. Farmer's office, the legal assistance and preventive law division, to send out the notice inquiring about First Command. The first was an e-mail message in early July 2003 from Vandenberg Air Force Base in California complaining that some First Command agents were using a senior officer's name without permission to get clerks to give them the telephone numbers of officer trainees.

A few weeks later, a brigadier general in the Air National Guard sent Mr. Farmer's unit a copy of an article from Kiplinger's Personal Finance magazine that criticized the expensive kind of mutual fund sold by First Command. Then the office received a request for information from NASD, the securities industry regulatory group, which had opened an inquiry into First Command.

The newsletter item, which also told field offices how to forward complaints to NASD, ran on Aug. 20, 2003, in the Judge Advocate General's Corps internal electronic newsletter, The On-Line News. And it caught the attention of the Air Force unit in San Antonio that oversees Tops in Blue, the touring Air Force talent show. Two days later, the program office asked First Command about the item. This was apparently the first the company had heard of it.

A spokesman for the judge advocate general, Lt. Col. Doug Murdock, said the item should never have gone beyond the JAG Corps. "Unfortunately," he said, "the article was interpreted as an indictment of First Command's business practices."

Lamar C. Smith, First Command's chairman and chief executive, was quick to respond. In an electronic memorandum titled "Thoughts," he acknowledged that the agent's threatening call to the young officer in Charleston "was an error and I will apologize for it." But he also expressed his anger, adding, "we have a real grievance" against the officer.

"Shall we pursue our own remedies?" Mr. Smith wrote. "If we do it will get harsh and expensive for the officer in a hurry."

The memo was sent to the Air Force by a senior vice president, Kurt B. Anderson, a retired Air Force general. A copy was obtained by The Times, as were copies of other documents for this article, including e-mail messages and handwritten notes of telephone conversations. Both the Air Force and First Command verified the authenticity of the documents.

Mr. Davis, the company's lawyer, said Mr. Smith's "Thoughts" had been written in the heat of the moment. But he acknowledged that Mr. Smith had been "upset and frustrated" with the Air Force and conveyed those feelings to senior officers.

One of them, the company said, was an old friend of Mr. Smith, Gen. Richard Brown 3rd, now retired, who was the acting assistant vice chief of staff. Mr. Smith then sent a letter of outrage to General Moseley, who had just become vice chief of staff. The letter, dated Aug. 28, cited the company's long support for Tops in Blue, condemned the Kiplinger's article and complained that the JAG item's author was "inviting others to join his war on First Command by filing complaints with regulators."

What the JAG staff should have done, Mr. Smith said, was report the Vandenberg complaint and any others to First Command.

The company would then have taken "instant and withering" action to discipline any agent involved, Mr. Smith wrote. He demanded that the JAG office run a "crystal clear retraction" and advise officers in the field that the item "should be disregarded."

The Order Is Retracted

A week later, the company said, another senior First Command executive, Rich Giles, a former Air Force captain, telephoned General Moseley, whom he had known for 30 years. And on Sept. 5, Mr. Smith followed up with a second letter to General Moseley warning that the company faced "the early stages of a 'wild fire.' "

Mr. Smith's complaint moved down the chain of command from General Moseley to the judge advocate general, Thomas J. Fiscus. Two days later, General Fiscus called a staff member at home and loudly upbraided him for his staff's handling of the First Command inquiry, notes in the JAG files show. He cited the letters and calls to General Moseley and warned of possible litigation.

Colonel Murdock, the JAG spokesman, said the general was "reacting to his discovery that there were very limited complaints" behind the office's original inquiry.

The staff was now directed to draft a retraction for the newsletter. But its language did not satisfy General Anderson, the First Command executive, who was allowed to edit the item. His version, published almost verbatim on Sept. 10, 2003, said that "virtually no negative information about First Command has been received" as a result of the original item.

First Command was allowed to edit the retraction because the Air Force believed that was appropriate "to resolve the unfair impact" of the item, Colonel Murdock said.

On Sept. 18, First Command got the letter of exoneration it had demanded. The letter, too, was edited by the company, Colonel Murdock said. One change, though small, was

significant. The Air Force's draft said the original item had been prompted by "complaints." First Command proposed changing that to "a single complaint." Lt. Col. Timothy Guiden, Mr. Farmer's boss, opposed the change, noting that four problems had been reported. He was overruled, the documents show.

The letter "tried to correct the record for their customers, undo any harm that had been done and level the playing field," Colonel Murdock said. But military documents confirm that complaints continued to arrive, both in writing and made orally to General Fiscus. (He temporarily stepped down last week pending the outcome of an unrelated Air Force investigation.) In each complaint, agents appeared to be trying to use "command influence," the power of senior leaders to sway junior officers, on First Command's behalf.

Only the incidents at Vandenberg and Charleston were ever reported to First Command, the company said. Its only disciplinary response was to counsel the agent in Charleston, said Mr. Davis, the company's lawyer. The Air Force said that none of the other complaints had revealed any systemic problem and that all had been resolved at the local base level. None were passed along to NASD, either.

"After we got slapped down in such a public manner, continued cooperation with the NASD was off the table," Mr. Farmer said.

NASD has nevertheless pursued its inquiry, which has been joined by the Securities and Exchange Commission and should be concluded soon, Congressional aides say.

Since The Times first examined First Command's practices in a two-part series in July, the company has come under scrutiny in Congress. Lawmakers are considering legislation to abolish the type of mutual funds the company sells and require the military to coordinate more closely with civilian regulators.

There was one small coda. In January, First Command notified the Air Force that it would no longer provide $150,000 a year to sponsor Tops in Blue. The company said the decision was based on "marketing considerations." But one Air Force executive attributed the loss directly to the JAG office's initial newsletter query about First Command. In an e-mail message to General Fiscus last Jan. 30, the executive wrote: "This is 'water under the bridge' but wanted you to know the consequences of the article."

Damage Control

On Aug. 20, 2003, responding to concerns from the field, the Air Force Judge Advocate General's Corps sent out an internal message seeking feedback on any sales abuses by First Command Financial Planning, a firm that caters to military officers. Three weeks later, the Air Force retracted that message. Here's what happened:

THE PLAYERS

First Command Financial Planning

GEN. KURT B. ANDERSON (AIR FORCE, RETIRED)
Senior vice president

LAMAR C. SMITH
Chief executive

United States Air Force

GEN. T. MICHAEL MOSELEY
Vice chief of staff

GEN. THOMAS J. FISCUS*
Judge advocate general

CHAIN OF EVENTS

Voicing a complaint

After consulting with another general, **Mr. Smith** writes **General Moseley** two letters demanding a retraction.

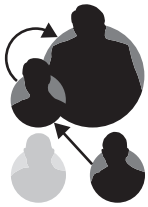
Mr. Smith also tells former **General Anderson**, a First Command executive, to be his liaison with **General Fiscus** on the issue.

Drafting a correction

General Moseley forwards First Command's complaints to **General Fiscus** for immediate action.

General Fiscus agrees to provide the retraction and orders his staff to work up a draft.

Reviewing and rewriting



General Fiscus sends the draft to **General Anderson** at First Command for review.

General Anderson, along with **Mr. Smith**, substantially revise the draft.

Approving the final draft

General Anderson sends the edited retraction back to **General Fiscus**.

General Fiscus approves the edited version of the retraction and it is published in the JAG staff's weekly newsletter.

FINAL VERSION

Retraction as it ran in the Sept. 10, 2003, JAG newsletter.

LANGUAGE ADDED OR CHANGED BY FIRST COMMAND

On 20 August 2003, JACA posted an entry in the TJAG On-Line News regarding allegations of possible unethical and overly aggressive sales practices by representatives of First Command, the investment firm formerly known as USPA/IRA. The JACA entry was transmitted simply as a means to gather information that might indicate that concerns raised at a single Air Force base would be substantiated at other bases. Since then, we have been in touch with corporate officials at First Command, who take any allegations of this nature very seriously. We're pleased to report they have aggressively sought corroborating information so as to assure they and their agents are conducting themselves in an ethical manner, and have taken action to address the concerns raised at the base in question. Additionally, virtually no negative information about First Command has been received as a result of the On-Line News article that would indicate an actual problem exists. We appreciate the responsiveness of First Command and their commitment to maintaining high, ethical standards of business practice.

We have also received feedback through various channels that the JACA On-Line News article has created the misperception that the Air Force views First Command in an unfavorable light. Nothing could be further from the truth. First Command is a company that has been serving military families for 45 years. They have maintained a close relationship with us that will continue for many years to come. I ask for your help in dispelling any misperception that our previous communication may have unintentionally caused. We have indications that the JACA piece may have received widespread distribution both at base level and throughout the Air Force, and therefore it is incumbent on us to be thorough in disseminating this message to ensure that First Command is not unfairly impacted. Please be diligent in letting all of your people know this matter has been resolved, and that any perception that the Air Force viewed the company in a negative way is wrong.

*Stepped down Sept. 22 pending an unrelated Air Force investigation

Sources: Air Force files; interviews with First Command Financial Planning and the Air Force

Macaulay Campbell/The New York Times

Business Day

The New York Times

WEDNESDAY, SEPTEMBER 8, 2004

Deepening Debate on Soldiers and Insurers

By DIANA B. HENRIQUES

In May 2002, a young, unmarried soldier named Michael R. Deuel, serving with the 82nd Airborne division at Fort Bragg, N.C., signed up to pay nearly $120 a month for life insurance that supplemented the much less expensive coverage he had through the military.

But before he shipped out for Iraq, Private Deuel called to cancel some of his coverage because an officer on base "told him he did not need it," according to an insurance agent who served the base. A year later, in June 2003, the 21-year-old soldier was shot and killed while guarding a propane distribution center in Baghdad.

The case of Private Deuel is one of five incidents that some life insurers and their agents have offered as proof that improper meddling by senior officers is preventing young soldiers from getting supplemental insurance coverage before they head for dangerous duty abroad. By their account, thousands of other people in the military — one insurance marketing executive puts the number as high as 6,000 — have had similar experiences and are at risk of sharing Private Deuel's fate. The complaints have led to an investigation by the Government Accountability Office.

Michael R. Deuel canceled some of his life insurance coverage before going to Iraq.

But an examination of the five cases in which young soldiers said they were dropping their insurance on an officer's advice and were later killed on duty shows that the issue is not so simple. The insurance being sold to the soldiers included policies that provided little additional coverage at high prices.

Four of the cases illustrate a little-noticed sales technique used by many insurance agents — selling military people an expensive policy in tandem with a low-cost policy. Agents who complain that soldiers have been wrongly advised to cancel policies do not distinguish between the two types of insurance. In fact, Private Deuel canceled only a policy that would have cost him $100 a month for a death benefit of $32,500, while keeping a $250,000 policy that cost him $18.75 a month.

Financial experts say that in most cases young Iraq-bound soldiers would be well advised to avoid the more costly policies,

Continued on Page 4

Continued From First Business Page

which include a savings plan as well as a death benefit, and stay with the less expensive ones, especially if they have young families.

But the insurance industry says soldiers, not their officers, should have the final say. Officers who advise troops to cancel their supplemental insurance "are hypocritical 'insurance gods' who advise lower and younger service people, who statistically are the ones losing their lives in war and are in harm's way, not to buy additional life insurance," said Richard L. Worsham of Hopkinsville, Ky., a marketing director who oversees more than 150 insurance agents serving military bases in eight Southern states and who lobbied for the G.A.O. investigation.

Mr. Worsham defended the more expensive products his agents sell as a useful retirement savings tool.

The American Council of Life Insurers, the industry's trade group, has encouraged any member companies with similar complaints about officer interference to notify the G.A.O., a spokesman said yesterday. And the issue may be raised in questioning tomorrow at a House subcommittee hearing examining whether young recruits are being exposed to high-pressure or misleading sales pitches, he said.

All service members can buy up to $250,000 in low-cost life insurance through the military, and 96 percent of them buy the maximum coverage, currently $16.25 a month. Some soldiers — those with young families or siblings, for instance — may want additional coverage, especially if they expect to serve in dangerous places.

But among the five soldiers cited by Mr. Worsham as having bought and then dropped their supplemental insurance, four of them — including Private Deuel — had actually applied for two different types of insurance, sold by the same agents at the same time, according to the application forms and other documentation provided by Mr. Worsham.

One was a simple, low-cost insurance policy offered through the Military Benefit Association, a nonprofit organization in Chantilly, Va. That policy, which pays a very low commission to the agents who sell it, gave Private Deuel $250,000 in supplemental coverage for $18.75 a month, $2.50 more than the premiums on the same coverage under his military plan. Financial planners and insurance experts say this form of coverage, called term insurance, is a good bargain for young soldiers of limited means who are seeking more coverage than they can buy through the military.

The other policy for which Private Deuel signed up was a Flexible Dollar Builder policy from the **Trans World Assurance** Company in San Mateo, Calif. This complex product, a form of "cash value" insurance, combines a small, expensive death benefit with an "accumulation fund" feature that allows policyholders to build interest-earning savings over time. That second policy would have cost Private Deuel $100 a month for a death benefit of $32,500.

This policy pays a large front-end commission to the selling agent. But its financial benefits to the policyholder accrue more slowly. Indeed, in most cases, the surrender value is less than the total amount paid for the product for at least a decade, even if the policyholder never has to tap into the "savings fund" for financial emergencies. Insurance experts say any cash value policy would be a poor choice for soldiers trying to maximize the amount their families would receive in the event of their deaths.

"It might very well be good advice to let the low-benefit, high-premium so-called savings program go and stay with the lower-price term insurance," said Joseph M. Belth, emeritus professor of insurance at Indiana University and editor of The Insurance Forum, an independent periodical.

In fact, Private Deuel did keep the $250,000 Military Benefit Association policy he had purchased, according to the agents who sold it to him, and canceled the more expensive Trans World policy, a choice that most financial experts would have endorsed.

Mr. Worsham also cited the case of Pvt. Marlin T. Rockhold, 23, killed by a sniper in Baghdad in May 2003, leaving a wife and her 9-year-old daughter at Fort Stewart, in Hinesville, Ga. At his death, the young private had $250,000 in military insurance, shared equally by his wife and his mother.

But eight months earlier, he had applied to buy $272,000 in additional insurance from one of Mr. Worsham's agents in Hinesville. According to the local agent, Private Rockhold canceled his application three days later, saying a noncommissioned officer at the base had told him he did not need additional insurance.

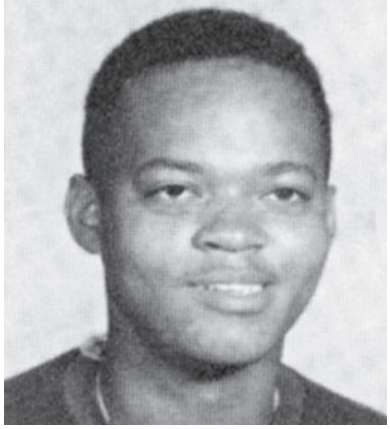
Who is looking out for the financial interests of young Americans going off to war?

Like Private Deuel, Private Rockhold had signed up for the two types of insurance — but unlike Private Deuel, he had canceled both policies, even the low-cost one through the Military Benefit Association that would have given him $250,000 in supplemental coverage for $18.75 a month, with the entire amount going to his widow.

The other policy he canceled was a Flexible Dollar Builder from the **American Fidelity Life Insurance** Company in Pensacola, Fla., a sister company to Trans World. That policy would have cost Private Rockhold $60 a month for a death benefit of $22,000. Under the terms of the policy, he would not have accumulated

Christopher Berkey for The New York Times

Richard L. Worsham oversees over 150 insurance agents serving military bases in eight states. He lobbied for the G.A.O. investigation.


Photographs by Associated Press

Troy D. Jenkins, left, Marlin T. Rockhold and Kevin C. Ott are among those some life insurers have offered as proof that soldiers are being prevented from getting some insurance coverage before going abroad.

any savings in the first year to supplement the stated death benefit, according to the documentation supplied by Mr. Worsham.

Two other soldiers on Mr. Worsham's list had also applied for both types of insurance, sold in tandem, and had also subsequently canceled both policies.

One, Pvt. Kevin C. Ott, who died in Iraq last June, had applied for just $50,000 of term insurance from the Military Benefit Association at a cost of $3.75 a month. He had also signed up for $25,000 of Flexible Dollar Builder insurance from American Fidelity for $100 a month, but had arranged to contribute an additional amount each month to the policy's accumulation fund, for a total monthly deduction of more than $158 for the second policy. Thus, he would have spent almost $162 a month for death benefits of $75,000, plus the money he paid into the second policy's savings fund before his death.

The other soldier, Pvt. Joseph Favorito 3rd, who died in a training accident in Louisiana in late 2002, had also signed up for $50,000 in low-cost Military Benefit Association coverage for $3.75 a month. His American Fidelity policy would have given him $26,000 in additional coverage, but would have cost $60 a month, none of which would have been paid into his accumulation fund in the first year.

The fifth soldier cited by Mr. Worsham was Sgt. Troy D. Jenkins of the Army, who was mortally wounded in April 2003 when he threw himself on an unexploded cluster bomb that had been brought to a group of soldiers by an Iraqi child. Sergeant Jenkins left a wife and two young children, according to military news releases.

The insurance agency that dealt with Sergeant Jenkins at Fort Campbell, Ky., sells both the low-cost Military Benefit Association term insurance, which would have provided up to $250,000 in additional benefits for his young family, and the Flexible Dollar Builder product. But according to the documents provided by Mr. Worsham, Sergeant Jenkins had applied in October 2002 for only the more expensive policy from American Fidelity, which provided $27,500 in coverage for $100 a month — and listed a friend as the primary beneficiary.

Sergeant Jenkins later canceled that policy, saying he was acting on the advice of his "chain of command," according to a letter from the local agent.

The complexities in the five cases illustrate the challenges that confront the G.A.O. study team. Mr. Worsham said that he had shipped 6,000 unconsummated insurance applications to the G.A.O. for its review, and he estimated that half of them were applications that soldiers filled out but subsequently withdrew, saying they were acting on the advice of senior officers. The other half, he said, were applications for policies that had not gone into effect because military finance offices had not processed the paperwork that would allow the soldiers to have their premiums automatically deducted from their paychecks.

Among the cases are some submitted by R. Lee Brown, a retired command sergeant major who sells insurance near Fort Hood, Tex. Mr. Brown, in a telephone interview last week, said about 50 soldiers filled out applications to buy insurance from him in March, just before they shipped out to Iraq. But so far, he said, none of their payroll deduction paperwork has been processed, leaving them without the additional insurance coverage they wanted.

The delayed paperwork may be an administrative lapse, but Mr. Worsham said he and Mr. Brown suspect that the payroll-deduction paperwork was simply "trashed" by finance officers who thought that the insurance the soldiers wanted to purchase was unnecessary. Pentagon officials have said that any military personnel found to have improperly interfered with a soldier's well-informed decision to buy supplemental insurance will be punished.

Mr. Worsham rejected the idea that officers who may have advised their troops to cancel policies may not have understood that there are some supplemental policies worth keeping, even if others are far less suitable.

Instead, he argued that many in the military establishment are prejudiced against American Fidelity and Trans World, the two companies that sell the Flexible Dollar Builder. In the late 1990's both companies and some of their agents were temporarily barred from several military bases after investigations confirmed that they had violated Pentagon rules governing the sale of insurance on military bases. Both were also sued in the late 1990's over their business practices by the Justice Department and by Florida insurance regulators; they settled both cases without admitting any wrongdoing.

The New York Times

NEW YORK, WEDNESDAY, JULY 21, 2004

Insurers Rely on Congress to Keep Access to G.I.'s

By DIANA B. HENRIQUES

When Lanny Peavy, president of American Amicable Life Insurance of Waco, Tex., learned that his company might be banned from selling insurance on every Army base in the world, he did what any citizen might do. He turned to his congressman.

And he got results. The congressman, Representative Chet Edwards, held a meeting at his Capitol Hill office with the insurance executive and two senior Army officials.

Minutes of the meeting, in March 2000, show that Mr. Peavy apologized for the misconduct of more than a dozen agents who over the years had violated the Army's rules against improper and misleading sales practices. He promised to take remedial action. Then he was told that the Army had decided against a worldwide ban.

Two years later, agents for American Amicable were barred from Fort Benning, Ga., after they used an improper sales pitch to induce recruits to buy insurance. The company dismissed the agents. Last fall, agents for an affiliated company were found to have misled hundreds of marines in a similar way at Camp Pendleton, Calif. The company offered refunds.

Insurance sales practices that mislead soldiers and violate Pentagon rules have plagued American military bases for decades. To find out why, the place to look is where Mr. Peavy ended up: Washington.

One explanation lies on the axis between Capitol Hill and K Street, where the insurance industry has easy access to Congress, lobbying power and millions of dollars in campaign contributions to generate legislative pressure. That was demonstrated most recently when the House of Representatives approved a measure aimed at keeping the Pentagon from tightening its insurance sales rules for at least another year.

Three lawmakers were instrumental in the measure. All said they were receptive to the effort because they did not want the Pentagon to overreact to isolated incidents of sales abuses at the expense of companies that provide valuable financial services to military people, many of them in their districts.

CAPTIVE CLIENTELE

Second of two articles:

Friends in Washington

The Pentagon is another source of the problem. Decades of deficient and fragmented enforcement at the Defense Department have done little to stop sales abuses. The Pentagon does not even keep records that might let it track rogue agents and detect patterns of misconduct.

Then there are the hurdles confronting other watchdogs, especially state insurance regulators, which lack the resources and perhaps even the power to police abusive sales practices on military bases.

The sum of those parts is a status quo that pleases no one and that seemingly defies all efforts to change it.

John M. Molino, deputy under secretary of defense for military community and family policy, said in an interview that he would like to take action this year to protect financially

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unsophisticated troops from predatory sales practices and products that may not fit their needs. Insurance agents, for example, using misleading tactics, have promoted policies that provide small amounts of coverage for steep premiums even though 94 percent of service members already carry $250,000 in low-cost coverage through the military. The policies do offer cash value over time but a majority lapse before they are worth anything close to what the troops paid for them, insurance experts say.

What Mr. Molino will be able to do about these problems, however, and when, may ultimately be determined on Capitol Hill, not at the Pentagon.

Everyone involved has a lot to lose. The insurance industry and its agents have a profitable business to defend. The Pentagon has a deep-rooted problem affecting morale, recruitment and re-enlistment. And the recruits — the hope of the volunteer force — have their paychecks on the line if not their respect for their commanders.

"Everyone agrees that there's a problem," said David Reese Jennings, an assistant United States attorney in Seattle who investigated military insurance sales in the late 1990's. "But nobody agrees whose problem it is."

Pamela M. Stachler, a single mother in Athens, Ohio, says she knows exactly whose problem it is: her son's. Specialist Nicholas Stachler, who returned home this spring after 11 months in Iraq, was one of the soldiers who unwittingly bought American Amicable policies during his basic training at Fort Benning in the fall of 2002, thinking he was enrolling in some sort of savings plan.

His mother, furious at what happened, said she was ready to seek help from Congress herself. "This company needs to do what is right and just," she said, "and that is: Give our soldiers back their money."

Enlisting the Influential

Frederick H. Graefe, a lawyer in Washington, is a former marine who occasionally signs his e-mail messages "Semper Fi." He has been featured in a promotional documentary video called "Above and Beyond: Former Marines Conquer the Civilian World."

Mr. Graefe (pronounced GRIF-ee) is also a lobbyist who specializes in health care issues. But in 2000, he took on an assignment that carried him beyond his usual turf. On behalf of two small insurance companies accused of questionable sales tactics — American Fidelity Life Insurance of Pensacola, Fla., and Trans World Assurance of San Mateo, Calif. — he agreed to lobby against any Pentagon move to ban insurance agents from military bases.

He was not alone. The American Council of Life Insurers, a formidable lobbying group, also opposes any tightening of Pentagon insurance rules, as does the National Association of Insurance and Financial Advisers, which represents agents.

Both groups as well as Mr. Graefe have contributed to political campaigns for federal offices. In the last four years, the insurers' group has given more than $1 million; the agents' group, almost $2.7 million; and Mr. Graefe, $65,000, in personal checks.

Three members of the House Armed Services Committee have received donations from at least one of the insurance organizations since 1999: Ellen O. Tauscher, a California Democrat, has received $31,000; Jim Ryun, a Kansas Republican and former champion runner, has received $4,000; and Jim Cooper, a Democrat from Tennessee, has received $1,000.

Five of Mr. Graefe's checks, totaling just under $3,000, went to Ms. Tauscher's campaign; two, for $1,500, went to help elect Mr. Cooper.

Since May 2003, the Pentagon has received five letters from the three lawmakers, signed jointly, all opposing any changes in its rules concerning insurance companies and their agents.

Next Step, the Senate

The insurance industry's influence on Capitol Hill has produced more than just letters to the Pentagon. It has driven legislation.

Lobbied heavily by the industry, Congress voted last year to require the Pentagon to give its members 90 days' notice before changing its rules on insurance sales. This year Congress may do much more to restrict the Pentagon's options.

Early this spring, the industry began to argue that the military is in fact doing too much, not too little, to monitor the insurance that servicemen and women buy. Some companies, including Mr. Graefe's two clients, have complained that senior officers on bases are interfering with their business.

Some officers are discouraging troops from buying additional insurance before going to dangerous places like Iraq, the companies say. Others, they say, are delaying the paperwork to arrange the payments for the policies, leaving the troops thinking that their insurance is in place when it is not.

But Mr. Molino, the Pentagon official, said a preliminary look at the complaints suggested that some military customers had simply changed their minds about the policies after consulting more experienced officers or financial advisers. Still, he said, further investigation was warranted.

And that is what some influential members of Congress have called for. On March 29 they asked the Government Accountability Office, formerly the General Accounting Office, to look into the industry's complaints. The request was made by Mr. Cooper of Tennessee and Representatives Duncan Hunter, the California Republican who is chairman of the House Armed Services Committee; Tom Davis, a Virginia Republican and chairman of the House Committee on Government Reform; and Christopher Shays, a Connecticut Republican.

And in April, Ms. Tauscher's office helped draft legislative language that would further restrict the Pentagon's options. The language, approved as Section 586 of the voluminous military authorization bill for 2005, would prevent the Pentagon from changing its insurance rules for at least a year after Congress receives the pending study by the Government Accountability Office. In the late afternoon of May 20, the House voted 391 to 34 to approve the bill with Section 586 tucked inside.

Mr. Molino said that the Pentagon would cooperate with the accountability office and that any improper handling of insurance paperwork would be stopped. But he also said he saw no reason that the Pentagon should wait to modify its insurance rules until the study was a year old.

But with the study expected to take the rest of the year, industry lobbyists say they are confident that Section 586, if embraced by the Senate, will tie the Pentagon's hands until at least January 2006.

The Lawmakers: Another View

Lawmakers say they have good reasons, unrelated to campaign financing, to listen to insurance company complaints about the Pentagon.

Take Mr. Edwards, whose flat, arid Texas district includes Waco. Mr. Edwards, a Democrat, was first elected to the House in 1990 but received no campaign support from Mr. Peavy, the American Amicable executive, until March 13, 2000, when Mr. Peavy made two unsolicited $1,000 donations to his re-election campaign.

Ten days later, on March 23, Mr. Edwards convened the meeting at which Mr. Peavy and his general counsel met with the two Army officials, one of whom was Maj. Gen. Kathryn Frost, the Army's adjutant general at the time.

Mr. Edwards said in a recent interview that he did not learn of the contributions until after the meeting. He had intervened, he said, solely because of American Amicable's longtime presence in Waco, where its vintage headquarters is the tallest building for miles around. "I perceived my role to be that of an ombudsman between a major employer in my district and a federal agency

Harry Cabluck/Associated Press

Representative Chet Edwards of Texas intervened for an insurance executive.

they were dealing with,'' he said. ''I do that on a routine basis.''

He confirmed, as the minutes of the meeting show, that Mr. Peavy apologized for his agents' conduct, which had already resulted in the company being barred from Army bases in Europe for two years, and promised to take steps to prevent it from happening again.

General Frost then announced that she had decided not to ban the company from all bases, as Army officials in Europe had recommended. She said in a recent e-mail message that her decision — made after the meeting was scheduled but before it was held — was based on ''a staff recommendation and my personal assessment of the right thing to do for soldiers, the Army and for those doing business with the Army.'' She was confident, she added, that Mr. Peavy would make the changes he promised.

When told about the recent incidents at Fort Benning and Camp Pendleton that drew sanctions against some of Mr. Peavy's agents, Mr. Edwards said he was disappointed.

''In hindsight,'' Mr. Edwards said, ''I would never want to be part of anything that created a problem for a single American soldier, ever.''

In a written statement, American Amicable said Mr. Peavy's campaign contributions were unrelated to the Washington meeting. It sought the meeting, the company said, to ''obtain closure'' on the pending recommendation by Army authorities in Europe that the Army bar its agents from all bases.

The company said the subsequent problems with some agents ''do not reflect a lack of commitment on the part of American Amicable.'' The company said that under its ''zero tolerance'' policy it had disciplined all the agents involved. It added that it considered its compliance record very good, given the 300 or more agents representing it around the world.

Even when an insurance company is not based in a lawmaker's hometown, it can command Congressional attention. Many agents and insurers have ties to military fraternal organizations that offer insurance to their hundreds of thousands of members, and these groups have their own access to Congress.

And many legislators have military installations in their districts and are concerned, they say, that the Pentagon would make it less convenient for constituents living on the bases to obtain insurance.

''There are lots of safeguards in place, from the base commanders to the state regulators,'' said Ms. Tauscher, whose district includes Travis Air Force Base near Sacramento. ''The Pentagon is overreaching.''

Mr. Ryun and Mr. Cooper agree. ''I know insurance agents don't have the best reputation,'' Mr. Cooper said. ''But we need to get the facts and find out the best way to help our troops get insured.''

The three lawmakers also questioned whether there were, in fact, any continuing ''deceptive sales practices'' that required Pentagon action. There were indeed new cases, including the one at Fort Benning, but the Pentagon did not report them because it did not know about them.

Another letter from the House members urged the Pentagon to disregard a study conducted four years ago by a retired Army brigadier general, Thomas R. Cuthbert. His report offered a laundry list of earlier military investigations into complaints against specific agents and companies, including American Amicable, American Fidelity and Trans World. It urged the Pentagon either to ban agents from bases or to do a better job of enforcing its rules.

All three companies say the Cuthbert report exaggerated problems, made unsupported accusations and relied on hearsay. The companies acknowledge, however, that several bases have temporarily barred them and some of their agents after investigators confirmed complaints against them. American Fidelity and Trans World were also sued over their business practices by the Justice Department and Florida regulators but settled both cases without admitting any wrongdoing.

The lawmakers, in their letter, echoed some of the companies' criticisms on the Cuthbert report. They cited a civil lawsuit in California last year in which a jury exonerated American Fidelity and Trans World, which had both been accused of misleading military customers. The jury rejected ''all findings of the Cuthbert report that were presented'' to it, the letter said.

Most of the report's findings were not at issue in the trial, however, court records show. The jury did not consider, for example, the report's detailed list of episodes in which complaints against agents and companies were confirmed by military investigators and led to suspensions or other sanctions. Moreover, the report's conclusions echoed those of an investigation in 1999 by the Defense Department's inspector general, who had chosen 11 bases at random and found insurance sales violations at every one.

But the lawmakers seem to have been persuaded more by the insurance industry's arguments than by official reports.

''The idea that there are a bunch of people out there preying on our military community is distasteful to me; I just don't believe it,'' Ms. Tauscher said. ''This is a regulated industry.''

She added: ''All of us have an interest in protecting our service members from people who would prey on them. But treating them like they are children and can't make their own decisions about things like this is just silly.''

Failures in the Pentagon

Congress is not the only obstacle the Pentagon faces. There is also the Pentagon itself.

Military experts, consumer advocates and even some industry leaders agree that whatever the Pentagon is doing to curtail abuses in the military marketplace, it is not getting the job done.

And they agree on the reasons. They say that the Pentagon's enforcement effort is inconsistent and underfinanced; that its sanctions are weak and rarely imposed; and that its record-keeping on violations is strikingly poor.

First Lt. Jennifer S. Parker, a lawyer in the Marine Corps who oversees insurance agents at Camp Pendleton, Calif., grew up in a family in which military service was as much a part of the genetic code as her red hair and freckles. She has always known that the military likes to solve its problems close to the front lines.

''The theory is that the commander on the ground has the best idea about how to regulate his own soldiers or marines,'' she said.

But the tradition has not served anybody well in preventing insurance sales abuses, Lieutenant Parker said. ''It's difficult to get all these investigations forwarded up to the Defense Department level,'' she said. ''It's not the Defense Department trying to make it difficult. It's just the way the system works.''

A decentralized system may be wise for military matters, but it fosters a pattern of inconsistent enforcement. One base commander may strictly enforce the rules while another may not, dozens of military people said.

And military installations rarely have the resources to monitor this area well. ''I feel like I'm trying to fight a forest fire with a garden hose,'' said Stacy Williams, who oversees insurance agents at Fort Bragg in North Carolina.

Imposing tough sanctions, like banning a company or an agent, consumes even more time and money. Formal policies must be adopted, investigations documented and extensive ''due process'' hearings held, legal officers at Fort Bragg said.

And when local officers with limited resources find themselves up against a national insurer with lawyers and influence in Congress, it can be an unequal match, Mr. Molino, the Pentagon official, said.

The most severe punishment — a worldwide ban of a company — has been used once since the Pentagon began regulating on-base insurance sales, against Academy Life Insurance Company in 1998. Instead, problems tend to be resolved with mild sanctions like warning letters, refunds or, occasionally, as at Fort Benning, a temporary suspension of agents, who are then free to move to another base.

Mr. Molino acknowledged that global sanctions have been too rare but said the reason was not a lack of will.

''I believe that there probably are other companies that are deserving of that kind of sanction,'' he said. ''But we don't have the information on which to make that decision.''

Indeed, military personnel at all levels of this enforcement effort are essentially flying blind. Few records are maintained and almost none are shared. The best available documents are at individual bases, but local base employees say their files are purged every two to three years to make room for new ones.

Finally, enforcement at all levels in the military must navigate around the fact that many of the insurance companies recruit retired or former military personnel to serve on their boards or sell their products. For career reasons, lower-ranking service people may be loath to complain about an agent or a company perceived to have close ties to senior officers, several investigators

Letters to the Pentagon

Three members of the House Armed Services Committee wrote the Pentagon on behalf of the insurance industry.

Jay Talbott for The New York Times

Jim Cooper of Tennessee pressed the G.A.O. to look into insurers' complaints.

Linda Spillers for The New York Times

Ellen O. Tauscher of California wants to limit efforts to change insurance rules.

said.

Hands Tied, or Folded

Many insurance industry leaders say that state insurance regulators, who police the civilian market, should be a big part of the solution to the Pentagon's problems.

"Instead of the Pentagon chopping down the orchard because of one bad tree, the answer is to have the state insurance commissioners investigate and yank the licenses of the offending agents," said Frank Keating, the former governor of Oklahoma and now the president of the American Council of

Linda Spillers for The New York Times

Jim Ryun of Kansas says military consumers should have access to agents.

Life Insurers.

Because of the obstacles they face, outside watchdog agencies have been even less effective than the Pentagon in curbing sales abuses on base, consumer advocates and industry experts say.

"Soldiers are a mobile population; bases are almost off limits for state regulators," said Joseph M. Belth, emeritus professor of insurance at Indiana University and editor of The Insurance Forum, an independent periodical. "And even if they were inclined to take action, they don't have the resources and they don't have strong laws to apply."

Some lawyers say that if states sue the offenders, they run the risk of being found in court to have no jurisdiction over military installations.

Besides, most states have chosen not to impose "suitability" rules on insurance sales, so regulators could not address whether the policies sold on bases are right for the young men and women who buy them, said Birny Birnbaum, a consumer representative for the National Association of Insurance Commissioners.

In Washington, abuses in the military market have drawn only a smattering of responses from watchdog agencies. The Justice Department filed two lawsuits against insurers, but both were settled out of court. The Federal Trade Commission, working with the Pentagon, set up a Web site to serve as a clearinghouse for complaints, but the site has received little attention from the military. And federal securities regulators have made no effort to address the abuses, several regulators and investigators said.

As for private class-action lawsuits on behalf of military consumers, most have been unsuccessful, often because of the same jurisdictional uncertainties and constant movement of plaintiffs and witnesses that hinder state regulators.

But military and industry leaders say that state and federal authorities are not always to blame when problems on military bases go unpunished. Most likely they do not even know about the problems.

As Lieutenant Parker explained, the military traditionally handles its problems through the chain of command and outside regulators are not one of those links.

Soldiering On

Last Sunday, Specialist Stachler, who turned 21 in April, arrived back at Fort Benning, where he had bought the unwanted policy that caused him such outrage when he returned from Iraq in February.

He is back in Georgia to enroll in Army Ranger School. If he graduates, he would be eligible for an elite Army Ranger regiment, like the ones that continue to search out terrorist strongholds in Afghanistan and Iraq. But Specialist Stachler said he was not taking the course to be a hero; he is simply preparing himself in case he takes another trip into danger, in Iraq or elsewhere.

"They say we'll see another deployment before another two years is done," he said. "This training will help. I'll know more and be more confident."

He talks about his sour encounter with the insurance market with more humor than he showed last spring. "Yeah, I was really flipping out over it," he said. But this is the Army, he shrugged, things get fouled up.

His mother, Pam Stachler, is far less resigned. "Somebody needs to take some responsibility for letting these kinds of people even have contact with our young soldiers," she said, "much less sell them this insurance."

Kevin Fitzsimons for The New York Times

Pamela M. Stachler of Athens, Ohio, was angered that her son was sold an insurance policy that he thought was a savings plan.

The New York Times

NEW YORK, TUESDAY, JULY 20, 2004

Tyler Hicks/The New York Times

Specialist Brandon Conger went to a compulsory financial briefing at Fort Benning and found salesmen in charge.

Basic Training Doesn't Guard Against Insurance Pitch to G.I.'s

By DIANA B. HENRIQUES

Nicholas Stachler was 19 years old when he reported for basic training with the Army at Fort Benning, Ga., before shipping out for 11 months to Iraq.

A gentle, trusting man, he had only weeks earlier graduated from high school with a handful of trophies in hockey and soccer, middling grades and hardly a clue about how to handle his money. He had held only casual jobs babysitting and mowing lawns and had never opened a checking account. The bus trip to boot camp, from the foothills of the Appalachians in southern Ohio to the kudzu-covered fields of western Georgia, took him farther from home than he had ever been.

About six weeks into his training — six weeks of combat drills and drummed-in lessons in Army ways — he tasted one of the less-honorable traditions of military life: a compulsory classroom briefing on personal finance that was a life insurance sales pitch in disguise.

As he remembers the class and as base investigative records show, two insurance agents quick-stepped him and his classmates through a stack of paperwork, pointing out where they should sign their names, where they should scribble their initials. They were given no time to read the documents and no copies to keep.

Specialist Stachler says he thought he had arranged to have $100 a month deducted from his pay for some sort of Army-endorsed savings plan or mutual fund. When he returned from Iraq, he found that he had not been saving the money at all. He had been paying $100 a month in premiums for an insurance policy that promised him some cash value far down the road and a death benefit that was almost certainly less than $44,000, a small amount compared with the $250,000 in life insurance he had through a military-sponsored plan that cost him $16.25 a month.

CAPTIVE CLIENTELE

First of two articles:

Financial Advice, at a Price

"I asked him what this money was coming out of his paycheck for, and he didn't even know," said his mother, Pamela M. Stachler of Athens, Ohio.

Specialist Stachler's experience is not uncommon. A six-month examination by The New York Times, drawing on military and court records and interviews with dozens of industry executives and servicemen and women, has found that several financial services companies or their agents are using questionable tactics on military bases to sell insurance and investments that may not fit the needs of people in uniform.

Insurance agents have made

Continued on Page C6

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misleading pitches to "captive" audiences like the ones at Fort Benning. They have posed as counselors on veterans benefits and independent financial advisers. And they have solicited soldiers in their barracks or while they were on duty, violations of Defense Department regulations.

The Pentagon has been aware of practices like these since the Vietnam War; investigations have even cited specific companies and agents. But because of industry lobbying, Congressional pressure, weak enforcement and the Pentagon's ineffective oversight, almost no action has been taken to sanction those responsible or to better protect those who are vulnerable, The Times has found.

And the problem has only intensified since the beginning of the Iraq war, say military employees who monitor insurance agents. With the death toll rising in Iraq, interest in insurance among the troops has surged, making the war a selling opportunity for many agents, they said.

The military market includes hundreds of thousands of men and women, many of them young and financially unsophisticated, all of them trained to trust leadership, obey orders and show loyalty to comrades.

To reach the buyers, many companies have used their military connections to lend credibility to their sales efforts, recruiting heavily from among retired or former military people for their corporate boards and sales forces. The advisory board at one company, First Command Financial Planning in Fort Worth, includes Gen. Anthony C. Zinni, the retired commander in chief of the United States Central Command.

Many financial experts say the products sold are often ill-suited for the military people who buy them. Like Specialist Stachler, almost all service members purchase low-cost insurance through the military, and, like him, 94 percent carry the maximum coverage of $250,000, the Defense Department says. But agents are nevertheless selling these men and women policies that have steep premiums for relatively small amounts of coverage.

A young marine at Camp Pendleton, Calif., for example, was sold a 20-year insurance policy last fall that gave him a death benefit of just under $28,000, plus some cash value far in the future, in exchange for $6,600 in premiums paid in the first seven years. That was more than 14 times what the same death benefit would have cost him under his military-sponsored plan.

Another product heavily promoted to military people is a type of mutual fund in which 50 percent of the first-year contributions are consumed as fees, a deal considered so expensive that such funds all but disappeared from the civilian market almost 20 years ago.

The insurance industry's leadership says rogue agents are to blame for the problems. The companies say that they have never knowingly tolerated these agents and that they dismiss the ones who are caught. A vast majority of their military customers, the companies say, are satisfied and loyal.

The industry's leaders also argue that existing Defense Department rules covering financial sales on military bases, if properly enforced, would be more than adequate to protect service members from the occasional episodes of abuse without cutting them off from legitimate information about insurance and investments.

Industry executives defend their products as appropriate and say they employ veterans as agents and advisers because they better understand the financial and personal pressures of military life. But many military leaders worry that the approach exploits, for private profit, the obedience, trust and loyalty that they work to instill in troops.

If a soldier or a sailor winds up feeling cheated or misled, the blame is as likely to go to the military as to the offending sales agents and companies, said John M. Molino, who, as the deputy under secretary of defense for military community and family policy, is responsible for Pentagon policy on these issues. That can damage morale, inhibit recruitment and discourage re-enlistment, he said.

"When we allow a person on an installation," Mr. Molino said, "there is at least the implication that we have sanctioned your presence."

But barring sales agents from bases is not the solution, said Frank Keating, the former governor of Oklahoma, who is president of the American Council of Life Insurers, a lobbying group.

"Anything that is unethical or inappropriate should not exist, period," Mr. Keating said. But "someone who is mature enough to fight and quite possibly die for their country," he added, "should be freely able to decide how much and what kind of life insurance they should have."

That argument does not satisfy people like Capt. James A. Shaw, commander of the Second Battalion's 325th Airborne Infantry Regiment at Fort Bragg, N.C. In his experience, he said, the training that produces competent soldiers may make them vulnerable to a disguised pitch from a friendly agent in the classroom who is a veteran.

"It's an environment where you do what you're told," Captain Shaw said. "They are learning stuff that will save their lives in combat. Those classes are the law."

When the topic switches from weapons maintenance to personal finance, he said, "there's no real reason to suspect otherwise."

Strangers in the Barracks

Specialist Stachler and four other soldiers who were in the room remember well the day in late summer 2002 when they unwittingly bought an insurance policy at Fort Benning from two men they had never seen before.

The sales pitch, they said, came during a compulsory "briefing" on personal finance held in a classroom on the first floor of the soldiers' sprawling three-story barracks in a wooded corner of the Sand Hill training area. About 200 recruits were present. The two men seemed to be on friendly terms with several of the sergeants, according to the soldiers, each of whom was interviewed in person or by phone.

The visiting insurance agents talked to the recruits about savings and investment.

"There was not a word about life insurance," said one soldier, Specialist Brandon Conger, a tall, intense 20-year-old from Butler, Mo., a small town near Kansas City.

But there was plenty of paperwork to fill out. Specialist Stachler said it was the agents who did that. "We had to sign things," he said, including the critical "allotment form," which authorizes the Army to deduct money from a soldier's paycheck, in this case to be paid to the insurance company.

What they said they experienced that day violated several provisions of Defense Department Directive 1344.7, which prohibits agents from soliciting "recruits, trainees and transient personnel in a 'mass' or 'captive' audience" on bases, soliciting on-duty personnel, using deceptive methods or possessing the allotment forms.

And what the soldiers signed up for was not what they had thought.

One soldier, Specialist Michael Fresenburg, 20, who recently became engaged to his high school sweetheart back home in Columbia, Mo., said he thought he had agreed to participate in "a sort of savings fund."

"I understood that there would be two accounts," he said, "one I could draw from at any time, and the other I couldn't touch for seven years."

The accounts were in fact a complex form of insurance, one that indeed allowed the soldiers to contribute to a savings fund at competitive interest rates. But there was a catch: they could participate only if they bought an expensive 20-year life insurance policy, one with premiums that would eat up all of their monthly payments in the first year and three-fourths of their payments over the next six years.

Insurance experts say the policies are intended for knowledgeable long-term investors who have savings to spare. They are almost never suitable for modest-income people as young and financially inexperienced as Specialist Stachler and his fellow soldiers.

"A young, single person with no dependents and no debts probably doesn't need life insurance at all," said Prof. James M. Carson, an insurance expert at Florida State University. Service members with families probably do need insurance and might want more than the $250,000 offered through the military's low-cost plan but cash-accumulation policies like these, he said, are an expensive way to obtain that additional coverage.

Moreover, the penalties for early withdrawals and the slow-growing cash value in most of the policies make them a terrible vehicle for short-term savings and a poor method for long-term investment, Professor Carson said. "If they just put their money into a money market fund," he said, "they would be out-earning the rate of return on most cash-value life insurance policies like these." The companies that sell the policies say they help military people save while providing some supplemental insurance coverage. But whether this was the right type of life insurance for the five men, now

at Fort Bragg, is almost moot: none of them realized they were buying life insurance. The only paperwork they received, they say, is a one-page statement on the status of their accumulation fund; it says nothing about any insurance benefits.

Robert Galbraith for The New York Times

Capt. Jonathan Strasburg led an investigation of classes at Camp Pendleton.

In Ohio, Ms. Stachler, a 48-year-old employee of the United States Forest Service and a single mother, paid such close attention to her son's finances while he was in Iraq that she once noticed bills for a modest shopping spree at the post exchange at Baghdad International Airport and teased him about it in their next phone call. She is adamant that no life insurance policy arrived in the mail for her son at his home in Ohio, his address of record.

"From the day he left Athens, Ohio, for the military, anything that came in with his name on it, I opened," she said. "There was no policy."

Specialist Stachler canceled the policy when he discovered what it was. Of the $1,800 deducted from his paychecks while he was at war, his mother said, he received $500 back. The rest had been eaten up by the premiums he did not know he was paying. "I was really bummed," he said.

Specialist Conger and Specialist Fresenburg emerged from Iraq still holding onto the grimy, dog-eared business cards they had collected at Fort Benning. Both cards bear the name of an insurance agency in Columbus, Ga., the city nearest the base. On one card, someone had penciled in the name Ron Thurman.

Ron Thurman is identified in Fort Benning records as one of several local representatives of the American Amicable Life Insurance Company of Waco, Tex., a prominent player in the military insurance market.

Now living in Bamberg, Germany, Mr. Thurman did not respond to a registered letter or to numerous telephone messages left at his office over the last month. But in a letter he sent to legal officers at Fort Benning, he said he had thought that the briefings had been approved by the sergeants in charge, although he acknowledged that agents are not allowed to solicit the trainees at Sand Hill at Fort Benning. "We promise this wouldn't happen again," he wrote. "We are very sorry."

The authorities at Fort Benning first learned about the improper briefings early last year; a young private told them when he came to them for help in canceling his policy. After an investigation, they barred Mr. Thurman from the base last October, along with another man from the same nearby agency. A third man affiliated with the agency received a warning letter, said Lt. Col. Ralph J. Tremaglio III, the deputy staff judge advocate at Fort Benning.

Colonel Tremaglio said his office received a call from the agency's owner in December. "He said he had been contacted by the vice president of American Amicable about Mr. Thurman," the colonel said. According to his file, the caller wanted to confirm that Mr. Thurman was barred only from Fort Benning, not from all military bases.

American Amicable disputes that. In a written statement, it said it did not learn about the Fort Benning incident until a few months ago, when a reporter asked about it. "The situation is currently under investigation," the company said, and it "will respond with the appropriate actions once the facts are known."

It also insisted that the policies sold at Fort Benning had been mailed to the soldiers' homes. It would not say how much coverage the $100-a-month policies offered, but the average death benefit it has paid in the Iraq conflict is less than $44,000. When three marines who bought similar policies last year were killed recently, the company paid out $87,155, or about $29,000 a marine.

The Agents Wore Stripes

Second Lt. Craig Cunningham, a feisty West Point graduate serving at Fort Bliss in El Paso, remembers a reception for officers in training that he attended at the base officers club last fall.

"There were 100 lieutenants or so, a pretty big group," Lieutenant Cunningham said. "They had a bar and a reception area, with finger food on one side. Everyone's mingling."

At one point the chitchat stopped as someone made a pitch encouraging the group to join the officers club and a nonprofit military fraternal organization, the Association of the United States Army.

Conversation resumed. Sometime later someone called for another halt, "to talk about First Command," Lieutenant Cunningham said.

"There were several agents there, mingling and handing out business cards," he said. He recalled that the agents were retired military officers.

The companies selling financial services in the military market try to recruit former military people to be their agents, people who can fit smoothly into receptions like the one at Fort Bliss.

"They're buying access," said Robert R. Sparks, a lawyer in Covington, Ky., who has handled cases for military consumers. "That's all they're getting. But that's all they need, because their customers are used to going along with authority."

Few companies have more fervently embraced this form of salesmanship, called affinity marketing, than First Command, a 46-year-old financial services company originally known by the gawky name USPA and IRA. The company said all of the 300,000 families that it serves are headed by former or active-duty commissioned officers or higher-ranking noncommissioned officers; it does not serve lower-ranking service people. And almost all of its 1,007 agents have served in the military or "have military connections." None, it says, have been cited for rule violations.

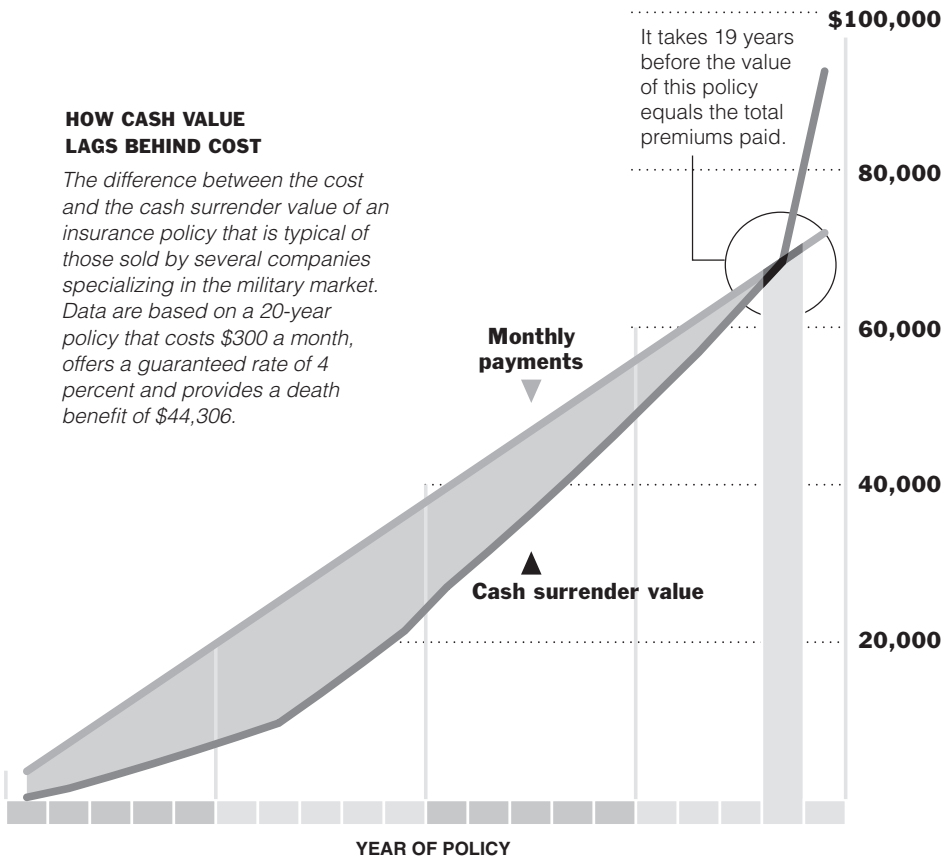
First Command's paid advisory board, trumpeted on its Web site, includes several retired military luminaries, among them General Zinni, who calls himself an enthusiastic customer. "I even advised my son, who is a marine, to join" the company, he said in a recent interview. He said he was comfortable with the use the company had made of his affiliation. "It just lets their clients know that this is the type of people they have on their board," he said.

The board also includes several other prominent military retirees, including the former Coast Guard Commandant Robert E. Kramek; Gen. Lloyd W. Newton, the Air Force pilot known as Fig Newton who flew with the Thunderbirds flying team; and Vice Adm. John R. Ryan, a former superintendent of the Naval Academy.

What First Command does "is affinity marketing, but I don't think there's anything wrong with that," said Lamar C. Smith, the chief executive, a former Air Force captain who was a pilot in the Vietnam War. As veterans, he said, his agents "speak the language" of the military and know, perhaps better than civilians, how life on a base can put pressure on a family's finances. Families move often and on short notice, Mr. Smith said, making it difficult for a spouse to hold a job; debt levels are higher than in civilian life. But where First Command sees a sales force attuned to the needs of its market niche, some of its critics see agents whose ties to senior officers and retired brass can unduly influence the financial decisions of junior officers.

"They go after these young, young lieutenants with an agent who is, say, a retired colonel," said Sandra Benintende, a military spouse at Fort Knox, Ky., who worked briefly for a First Command office. She recalled that one young customer waiting for a meeting with his agent once asked her, "Should I call him 'Sir'?"

The company says it relies only on word-of-mouth referrals to cultivate customers. Interviews with a score of young officers and their spouses, however, produced an equal number of anecdotes about other ways that First Command sought out prospects.



Insured, Unaware

Specialists Nicholas Stachler, left, and **Michael Fresenburg** were among the young soldiers who say they unwittingly bought life insurance before they left basic training at Fort Benning, Ga., to fight in Iraq last year. At the time, however, they thought they were signing up for a savings or investment fund. They say they were not given copies of their policies so the exact details of the plans are unclear. But they were similar to the policy illustrated here, which was sold last year at Camp Pendleton. The policies do allow savings at a competitive interest rate — but only if the soldiers also buy expensive life insurance, which eats up most of their payments for the first seven years. As a result, the savings fund grows so slowly that buyers have to wait almost 20 years before its guaranteed value is equal to the amount paid in. Moreover, the insurance they do get costs far more than the same coverage would cost through the military's insurance plan.

Source: Pioneer American Insurance Company policy illustration obtained from Marine Corps investigative files

The New York Times

One remembered a "sailor of the year" reception that the company sponsored in Norfolk, Va., at which agents passed out business cards. Families at Fort Knox know that First Command provides a free "happy hour" buffet on Fridays at a bar near the base, Mrs. Benintende said.

From their first meeting with a company agent, clients are encouraged to provide the names of other prospects and to invite friends and co-workers to the free dinners. The presence of senior officers among the satisfied customers at such events was cited by many young military people as something that persuaded them to sign up with First Command.

And there is no doubt that First Command has tens of thousands of satisfied customers. Among them are Lt. Col. Rande and Karen Read of Weatherford, Tex., west of Fort Worth. Retired from the Air Force, Colonel Read is a pilot for American Airlines; Mrs. Read is a former Air Force nurse.

Mr. Read's first agent, he recalled, was a former Air Force captain a few years older than him. "I was taking a shotgun approach, continually dabbling," he said. With coaching from his agent, he said, he started a regular savings and investment plan in 1982.

But the free dinners and hand-holding make a sales effort like this expensive and time-consuming. Only financial products that generate high front-end commissions can compensate agents for the amount of work required, financial experts said.

'Teachers' Who Sell

Insurance agents who want to sell policies on base at Camp Pendleton, north of San Diego, must first pass a written test on their mastery of military rules. One question asks: "When may an insurance agent give classes for the sole purpose of informing service members of their V.A. benefits?"

The correct answer is "Never."

That prohibition did not stop several agents for Pioneer American Insurance Company, a sister company of American Amicable, from arranging "veterans benefits" classes last summer for marines at Camp Pendleton's training school, camp lawyers said. Posing as instructors, the agents had actually come to sell insurance, the lawyers said.

The ruse may have gone undetected by the camp authorities had not a retired master gunnery sergeant called the school last August to complain about a policy that his 23-year-old son, one of the trainees, had just purchased. (The Marines declined to disclose the names of the sergeant or his son.) An investigation was begun and passed to Capt. Jonathan Strasburg, who is head of research and civil law in the staff judge advocate's office at Camp Pendleton.

At one point an undercover investigator was assigned to attend a "veterans benefits" briefing. The investigator reported that the agents would talk about benefits "anytime anyone in authority was in the room," Captain Strasburg said.

"But when the troop handler would leave the room," he said, "the V.A. talk would stop, almost mid-sentence, and they would roll into their investment pitch."

In his report, Captain Strasburg wrote that the officer in charge did not realize that the volunteer instructors were insurance agents and, in any case, was unfamiliar with the rules that barred agents from holding such classes, a chronic problem on bases, military lawyers say.

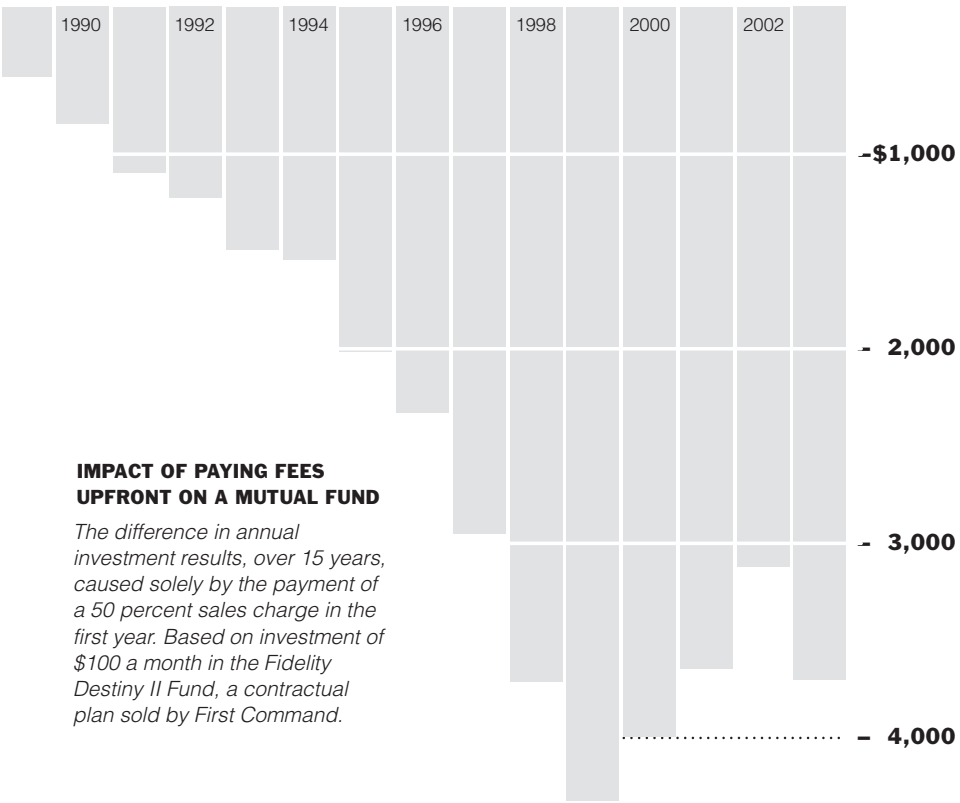
In affidavits, many of the marines that Captain Strasburg interviewed said the agents had instructed them to sign and initial stacks of unread documents, including both the allotment forms that set up payroll deductions and the company's "Statement of Understanding" forms. These certify that each marine had requested the sales appointment, was off duty at the time and had understood the details of the insurance being purchased.

The policy that the retired sergeant's son and presumably other trainees bought provided a death benefit of just under $28,000 for 20 years in exchange for premiums that totaled $6,600 over the first seven years, including $1,200 in the first year. After the 20th year, the policy would expire with some cash value, most of which would have accumulated in its final years. Under the military's program, the same amount of coverage would cost just $468, the Strasburg report said.

Like the Pentagon's code, the camp's rules forbid soliciting business from new recruits or trainees. The reason is simple, Captain Strasburg said, these young marines "are taught to question nothing."

Captain Strasburg ultimately identified 345 marines who had bought insurance through the improper briefings. Of the dozens he interviewed, he said in his report, all "felt they were obligated to sign up."

"They all believed the plan was endorsed



IMPACT OF PAYING FEES UPFRONT ON A MUTUAL FUND

The difference in annual investment results, over 15 years, caused solely by the payment of a 50 percent sales charge in the first year. Based on investment of $100 a month in the Fidelity Destiny II Fund, a contractual plan sold by First Command.

A Slice Off the Top

Mutual funds with first-year fees are so expensive compared with other investment options that they have virtually disappeared from the civilian market. But not from the military market. These funds are commonly sold to young officers like **Capt. Jennifer Jusseaume**, above, with her husband, **Capt. Brian Jusseaume**, both of the Air Force. The funds allow investors to contribute a fixed amount each month — but they take 50 percent of the first year's investments as upfront sales charges. As a result, investors who drop out in a few years pay a large percentage of their investment in fees. And because the fees take such a big slice off the top, even those who stay for 15 years earn less each year than if they had invested in an identical fund but had avoided the first-year fee.

Source: Morningstar

The New York Times

by the Marine Corps," he concluded.

The Marines found no indication that Pioneer American had known about these improper activities, and the company agreed to offer refunds. It also dismissed the agents, the company said, under a "zero tolerance" policy it had put in place in October 2000.

The earlier improper briefings at Fort Benning had a different aftermath. Barred from the base last October, Mr. Thurman began working for American Amicable on military bases in Europe almost immediately. According to Millie Waters, a public affairs officer in Europe, the company requested a permit for Mr. Thurman on Nov. 6; the permit was approved on Dec. 11.

Army authorities in Europe knew he had been barred from Fort Benning, Ms. Waters said, but they issued the permit, because the exclusion had been limited to Fort Benning and because an American Amicable executive in Europe had vouched for him.

But company executives in Texas said they had not known about the action against Mr. Thurman when he moved to Germany and would not have approved his transfer if they had. The company said it cut its ties to Mr. Thurman in June and is investigating how his transfer was approved.

Since October 2000, the company has made a considerable effort to make sure that its agents "understand the moral issues involved in insurance sales," the company said in its statement.

"The examples cited here of personnel who have violated the company's trust do not reflect a lack of commitment" by the company, it said. Over all, it considers its compliance record to be very good, given that it has more than 300 agents working as independent contractors around the world.

Locked In and Losing

When Capt. Jennifer Jusseaume was a junior at the Air Force Academy in Colorado Springs in 1998, she took advantage of lenient loan terms that financial companies have traditionally offered to third-year students at the military academies. She borrowed $19,000, at 1.5 percent interest.

She knew she would use some of the money to pay off her credit card debt. But while she was deciding what to do with the rest, her commanding officer arranged a financial briefing for his cadets in their squadron's common area. The briefing was given by the commander's investment adviser, a retired officer who was an agent with First Command.

"It was about investing," said Captain Jusseaume, now 25 and married to Capt. Brian Jusseaume, who returned from duty in the Persian Gulf in time for the arrival of their first child this month. "If you were interested, you signed your name." She did, ultimately investing in two mutual funds that First Command sells as an agent for several large mutual fund families.

Both funds, the Fidelity Destiny Fund II and the Pioneer Independence Fund, consumed half of the first year's investment in sales charges, a drag on her future returns from which she will never recover.

The type of mutual fund that First Command sells to virtually all its customers is traditionally called a contractual plan. Under this plan, fund shares are purchased in monthly installments over 15 or 20 years.

The plans have been around since the 1930's but all but vanished from the civilian market in the early 1980's after decades of sales abuses and regulatory crackdowns. Their biggest drawback, fund experts say, is the impact that the loss of 50 percent of the first year's investment has on future earnings. Even a faithful investor never recovers from that burden, regardless of how well the fund does over time. And investors who do not go the distance — historically a high percentage — wind up paying a substantial percentage of their total investment in sales charges.

The Securities and Exchange Commission urged Congress in 1966 to abolish contractual plans. Instead, bowing to industry pressure, Congress only modified the rules governing them. It now allowed investors to withdraw from new plans within 45 days with a full refund and within 18 months with an 85 percent refund.

The amendments made contractual plans less attractive. Indeed, they have become so obscure that the Investment Company Institute, the fund industry's trade group, has not kept statistics on them since 1985.

In contrast to the enormous variety of mutual funds available in today's market, only a handful are still sold as contractual plans; First Command offers five, managed by Fidelity, AIM/Invesco, Pioneer and Franklin Templeton.

First Command and the fund companies that sell the plans fully disclose those first-year fees. In their defense, they say that contractual plans help discipline investors by keeping them from making costly shifts

in and out of the market. And, they say, the plans compensate agents for the labor-intensive work of turning young military couples into savers and investors.

Among First Command's satisfied customers are First Sgt. Mike Boardman and his wife, Terry. Sergeant Boardman, who has been in the Army for 20 years, is a big, powerfully built man with firm opinions, a forceful personality and a fierce devotion to his troops. "I led 61 men into Iraq and led 61 out," he said. "I consider myself a good soldier. But I don't know anything about mutual funds and I don't want to know. I don't want to have to read the business pages. I barely have time to read the sports pages."

In an interview arranged by First Command, Sergeant Boardman said the upfront fees had curbed any temptation to stop making the monthly contributions. "Also, I felt I'd paid them to do a job for me over time," he said, "and I'm going to make them do that job."

Mr. Smith, the chief executive of First Command and himself a longtime investor in contractual plans, argues that the choice for most young officers is not between a contractual plan and a low-cost, more flexible mutual fund. "The choice," he said, "is between saving money through investments in a contractual plan or spending it and winding up with nothing."

But less happy customers say that the front-end fees have sapped the earning power of their hard-earned investments and locked them into disappointing or inconsistently managed funds.

Lt. Cmdr. Dale Folsom, now the senior controller for the Coast Guard's search and rescue center in New Orleans, began his career as an enlisted man. In less than a dozen years he rose to the rank of chief petty officer and, in 1993, graduated from the Coast Guard's officer candidate school in Yorktown, Va.

Michael Stravato for The New York Times

Lamar C. Smith said as veterans, First Command agents "speak the language."

Two years later, Commander Folsom signed up with First Command and was steered out of his simple portfolio of savings bonds into the Fidelity Destiny II Fund, a contractual plan.

"I was a little surprised that, in addition to the 50 percent load and annual management fees, there is also a monthly 'sales and creation charge' and custodian fees," he said. After fees ate up half of his $300 monthly investment in the first year of the plan, the smaller continuing fees reduced it to $293.97.

"I just wish I had realized that what they were selling at such a high price was discipline and I already had that," Commander Folsom said.

Several longtime executives of the mutual fund industry said they were amazed that these archaic plans are still a staple of the military market. "Would I ever recommend that an investor buy contractual plans? No, I would not," said John C. Bogle, the founder of the Vanguard Group, the mutual fund management company, and an advocate of low-cost mutual fund investing.

But Commander Folsom said his disgust with First Command is based not just on his experience with contractual plans, but also on the advice the company gave to a young, single Coast Guard officer he knows.

The young man, who is in his mid-20s and confesses to having haphazard financial habits, takes home slightly more than $3,900 a month, thanks to a $600-a-month raise last year. But precisely $600 is being deducted automatically from his paycheck under the financial plan designed for him last fall by First Command.

He is putting $300 a month into contractual plans, although after the upfront fees are paid, only half of that is actually being invested on his behalf. Another $150 is going into a money market fund at First Command Bank, the company's online savings institution. And $142.69 is being deducted for $250,000 in life insurance, duplicating the $250,000 in coverage he is already buying through the military for $16.25 a month, one-eighth as much. (The higher-priced First Command policy has some slow-growing cash value and a clause that guarantees that he can get coverage when he leaves the service.)

But the punch line for Commander Folsom is that the money the young man is steering toward First Command could be helping to pay off his ever deepening debt. The young man, who agreed to be interviewed on the condition of anonymity, confirmed that his debts total almost $51,000. Of that, almost $16,000 is credit card debt, of which more than $5,700 is incurring interest charges of 25 percent.

First Command said it could not comment on a client's affairs but defended the advice reflected in the man's plan, noting that it is important for young officers to save and invest even as they pay their debts.

Gerald Cannizzaro, a financial planner in suburban Washington and a member of the National Association of Personal Financial Advisors, was one of several financial planners who were stunned at the advice the young officer was getting.

"If you were talking to a bunch of N.A.P.F.A. people, they'd be in a coma by now," Mr. Cannizzaro said. "This is so bad. Why is he investing money when he has all that credit card debt? It makes no sense except to generate commissions for someone."

High upfront fees are not the only disadvantage of many products sold in the military market, financial experts say.

About half the people who buy cash-value insurance policies drop them within the first seven years, academic experts say, barely the break-even point for most policyholders. The dropout rate is higher for military policies than for those in the civilian market, industry analysts said. As for contractual plans like those Captain Jusseaume owns, studies show, roughly half the investors who have bought them dropped out early.

First Command says its dropout rates are much lower, for insurance and investments. Its analysis shows that one of every four plans it has sold since 1980, more than 156,000 plans, were dropped before completion, and that one out of 10 was dropped after customers had paid into them for at least five years.

The figures, critics said, raise doubts about whether the high front-end fees actually accomplish what First Command says they will: instilling discipline and providing the personal attention that helps inexperienced investors stay the course.

But the young Coast Guard officer seemed content with the advice he was getting from his First Command agent, a retired military officer.

Captain Jusseaume, the Air Force officer, expressed some regret about her reliance on First Command's advice. "Looking back on it," she said, "I know I could have done something better with the money."

So why had she decided, as a cadet, to rely on First Command? "Our commander made it clear that he was with First Command and he had been very happy," she said. "I was really swayed by that."

Inaction at the Pentagon

Lt. Wayne V. Hildreth, retired, of Jacksonville, Fla., conducted one of the Navy's most extensive investigations of the improper sale of financial products on military bases. The experience, he says, taught him two troubling lessons.

First, he learned that the problems extended far beyond one company or one branch of the military. Second, he learned that the Pentagon was capable of ignoring the problems, even for decades.

His discouraging education came in 1997. He was looking into complaints about agents of Academy Life Insurance Company, at the time a prominent player in the military market. Among other things, the agents were accused of improperly using their relationship with the Non-Commissioned Officers Association, a military fraternal group, to sell policies.

The Pentagon, he discovered, already knew about many of the problems he was in-

vestigating. It had known at least since the Vietnam War, in fact, thanks to the reporting of Richard C. Barnard in The Army Times in 1974. When Lieutenant Hildreth first encountered the newspaper's work months into his 1997 investigation, he said, it nearly broke his heart.

"The sales methods and practices described in this article mirror those sales methods and practices I have uncovered," he wrote in his report. It was evident, he went on, that Defense Department officials knew of the practices involving Academy Life "yet appear to have done nothing."

His report, submitted in 1997, appealed for Pentagon-level action to address the structural problems he had identified. The Pentagon's response was to order more studies and, a year later, to bar Academy Life temporarily from the military market. The company denied any wrongdoing. It was the first and only department-level action against an insurer.

That response was not nearly strong enough, Lieutenant Hildreth said. "The fact that you are still finding these incidents on base today proves that," he said in a recent interview.

The first Pentagon study ordered was by its inspector general, who looked at life insurance sales on 11 military bases around the country selected at random. The final report, released with little fanfare in March 1999 and eliciting little Congressional interest, found improper practices at all 11 bases.

It detailed them: "misleading sales presentations, presentations by unauthorized personnel, presentations to captive audiences, soliciting during duty hours and soliciting in the barracks."

The report recommended stricter penalties and better communication with state insurance regulators. It also urged that a task force be set up to consider either enforcing existing rules more vigorously or banning agents from military bases entirely.

The Pentagon then ordered another study, this one by Brig. Gen. Thomas R. Cuthbert, retired, a Harvard-educated lawyer and the former chief judge of the Army's Court of Criminal Appeals.

His 70-page report, delivered in May 2000, was an indictment of the status quo at the Defense Department. Its policies, he wrote, "have been routinely violated" for 30 years. His recommendation echoed the inspector general's: "Either devote substantial additional resources to the regulation of insurance sales on military installations or flatly prohibit the on-base solicitation of life insurance products."

The report also detailed how agents from several specific companies, including American Amicable, Pioneer American and First Command, had been the targets of complaints at individual bases over the years. The study drew a flurry of media attention and a fierce reaction in the insurance industry. The Pentagon responded by setting up the Insurance Solicitation Oversight Working Group to examine the issue further.

The group's draft report, an undated copy of which was obtained by The New York Times, noted that the group had been told that banning agents from military bases "was not an option." Instead it recommended better personal finance training for the troops and stricter enforcement of the rules. It also urged that the Pentagon work more closely with state insurance commissioners.

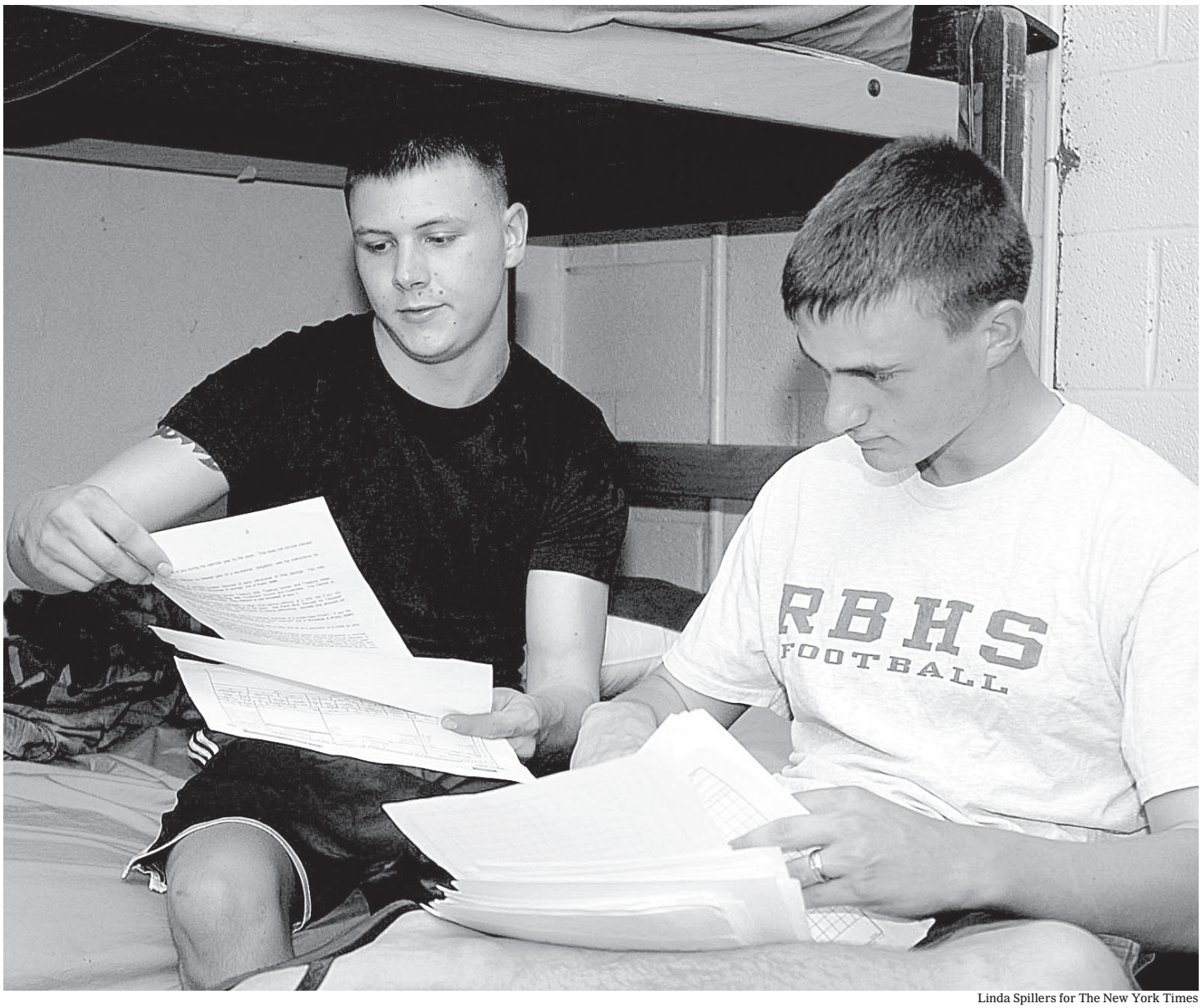
Last summer the Pentagon signaled that it was ready to propose concrete steps to address the problems documented in its own studies. This set off a fresh round of industry opposition. So far, no proposal has been announced, although Mr. Molino, the Defense Department official responsible for the policy, said he hoped to act this summer.

Long before General Cuthbert issued his report, Lieutenant Hildreth had retired from the Navy, disillusioned about the Pentagon's willingness to address the problems he had uncovered in 1997.

"I sensed that nobody was going to do anything," he said in an interview this spring. "I lost confidence in a system that I had once had a lot of confidence in."

Annie Marie Musselman for The New York Times

Jennifer Jusseaume bought mutual funds at the Air Force Academy. She and her husband, Brian, are captains in the Air Force.



Linda Spillers for The New York Times

Specialists Nicholas Stachler, left, and Michael Fresenburg said they thought they had signed up for a savings plan.