

Life Insurance Firms Profit From Death Benefits



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Bill Cramer/Bloomberg

Cindy Lohman is seen holding a photo of her son Ryan, who was killed by a bomb in Afghanistan. She says she feels betrayed by Prudential, his life insurance company.

July 28, 2010

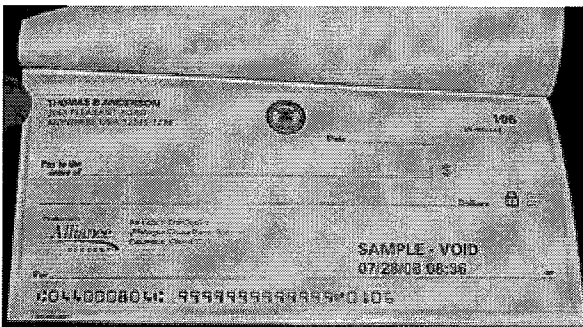
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Life insurance companies delay issuing death benefits owed to families of service members and others by promising to hold the money in safekeeping, an investigation by Bloomberg Markets Magazine found. Senior writer David Evans and Cindy Lohman, whose son was killed in Afghanistan, discuss the findings with NPR's Robert Siegel. Below is an exclusive preview of Evans' September 2010 magazine article.

Millions of Americans are being duped by life insurance companies that have figured out a way to hold onto death benefits owed to families. MetLife and Prudential lead the way in making hundreds of millions of dollars in secret profits

every year on money that belongs to relatives of those who die, an investigation by *Bloomberg Markets Magazine* found. Among the people being tricked are parents and spouses of U.S. soldiers killed in battle in Iraq and Afghanistan.

Survivors of service men and women are told they'll get a \$400,000 life insurance payout. They don't. Instead, Prudential — which has a government contract to provide life insurance for military families — keeps their money.



Enlarge

Courtesy of The Department of Veterans Affairs

A sample "check" sent to survivors as part of Prudential's Alliance Account kit.

Families are surprised when they receive what looks like a checkbook. In documents, Prudential promises to hold the money in safekeeping for as long as families would like, saying it will pay them 0.5 percent interest. What Prudential doesn't disclose is that it is keeping survivors' money in Prudential's own corporate investment account, where the company is earning five to 10 times as much as it pays to families. The so-called checks have JPMorgan Chase printed on them, but they cannot be used as regular checks. Instead, they are to be submitted back to Prudential to get any

money

But the money isn't in a bank, and it's not protected by FDIC insurance. None of these facts are spelled out to the survivors; the details are often hidden in fine print.

Nor are families told that they could earn more than twice as much interest by opening FDIC-insured money market accounts at banks across the country. Families of fallen soldiers say they often don't

want to touch the "checkbooks" because they view them as payments in return for their sacrificed child. As a result, Prudential holds onto the death benefits, often for a year or more.

"I'm shocked," says Cindy Lohman, a Maryland woman whose son, Ryan, was killed in Afghanistan in 2008. "It's a betrayal. It saddens me as an American that a company would stoop so low as to make a profit on the death of a soldier."

Millions of Americans have unwittingly been placed in the same position by their insurance companies. The practice of issuing so-called "checkbooks" to survivors, instead of paying out lump sums, extends well beyond the military. In the past decade, this tactic has become standard operating procedure in an industry that touches virtually every American: There are more than 300 million active life insurance policies in the U.S. MetLife alone holds \$10 billion in death benefit money that belongs to grieving families. MetLife makes \$100 million to \$300 million a year by investing, mostly in the bond market, money that belongs to survivors.

Insurance companies say they're providing their customers with a service. Prudential's checkbook accounts are helpful to families of soldiers, says company spokesman Bob DeFillippo.

"For some families, the account is the difference between earning interest on a large amount of money and letting it sit idle," he says.

MetLife spokesman Joseph Madden says his company's customers are very happy with the system.

"The feedback from customers has been overwhelmingly positive," he says. "We afford beneficiaries security, peace of mind and time to make an informed decision — while earning interest in the interim."

How big is the unregulated quasi-banking system operated by insurers? There are now more than a million of these accounts holding more than \$28 billion at 130 life insurance companies.

Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

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Courtesy of Bloomberg

Above, a paragraph is found at the bottom of a page, "Answers to Frequently Asked Questions," in Prudential's Alliance Account kit. The sentence highlighted by NPR explains that balances in these retained asset accounts are not insured by the Federal Deposit Insurance Corp. (FDIC).

2006

How Can I Withdraw Money?

You may make withdrawals by written request, telephone (subject to MetLife's current procedures), or by using the checks we supply to you. These checks are drawn on a bank account made available to you at a bank chosen by MetLife. Each withdrawal must be \$250 or more. Your use of this account is subject to the rules and regulations of the bank where the checks are drawn. Once you withdraw money from your Account, you may not put it back.

2010

How Can I Withdraw Money?

Because the assets backing your Account are not held at a bank, your Account is a draft account and not a checking account. However, you can use these Account drafts that we supply to you (referred to here as "checks" or "checkbook") just as you would checks from a checking account at a bank. You may make withdrawals by written request, telephone (subject to MetLife's current procedures), or by using the checks we supply to you. The checks are drawn on a bank account made available to you

Above are excerpts of MetLife customer agreement documents from 2006 and amended in June 2010 to inform survivors that their insurance proceeds are not held in a bank.

<p>2006</p> <p><u>What is the Total Control Account Money Market Option ("Account")?</u></p> <p>It is a settlement option at MetLife ("MetLife," "we," "us" or "our") which credits money market interest rates on life insurance, annuity, and matured endowment proceeds, and other amounts payable to the Account holder ("you," "your," "I" or "me"). You have total control of the money in your Account in that you can make withdrawals of \$250 or more anytime, without penalty or loss of interest. MetLife fully guarantees the principal and all the interest you have earned.</p>	<p>2010</p> <p><u>What Is the Total Control Account Settlement Option ("Account")?</u></p> <p>It is a settlement option at Metropolitan Life Insurance Company ("MetLife," "we," "us" or "our") which although not a money market account, credits money market interest rates on life insurance, annuity, and matured endowment proceeds, and other amounts payable to the Account holder ("you," "your," "I" or "me"). You have total control of the money in your Account in that you can immediately make withdrawals of \$250 or more up to the full value of your Account anytime, without penalty or loss of interest. The principal and interest in your Account are guaranteed by MetLife. These guarantees are subject to the financial strength and claims paying ability of MetLife. The Account is not FDIC insured.</p>
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Left image, Courtesy of Bloomberg; Right image, MetLife via Bloomberg

Above are excerpts of MetLife customer agreement documents from 2006 and amended in June 2010 to say the account is not "a money market account" and not insured by the FDIC.

<p>2006</p> <p><u>How Much Does the Account Cost Me?</u></p> <p>There is no monthly service or maintenance fee for your Account, and there is no charge for withdrawals or for checks. Special services such as stop payment orders, photocopies of checks or statements, wire transfers, and dishonored checks are subject to the current applicable fees of the bank.</p>	<p>2010</p> <p><u>How Much Does the Account Cost Me?</u></p> <p>There is no monthly service or maintenance fee for your Account, and there is no charge for withdrawals or for checks. Special services such as stop payment orders, photocopies of checks or statements, wire transfers, and dishonored checks are subject to the current applicable fees of the bank.</p> <p>The assets backing the Total Control Accounts are maintained in MetLife's general account and are subject to MetLife's creditors. MetLife will bear the positive or negative investment experience of such assets. Regardless of the investment experience of such assets, the interest credited to your Account will never fall below the guaranteed rate stated previously. Because MetLife bears the investment risk of the assets backing all Total Control Accounts, it may receive a profit from these assets.</p>
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Left image, Courtesy of Bloomberg; Right image, MetLife via Bloomberg

Above are excerpts of MetLife customer agreement documents from 2006 and amended in June 2010 to explain that survivor benefits are held in MetLife's general account and "are subject to MetLife's creditors" and that MetLife "may receive a profit."

"It's outrageous that they're profiting off other people's grief," says Mark Umbrell in Doylestown, Pa. His 26-year-old son, Colby, an Army Airborne Ranger who earned a Bronze Star and a Purple Heart, was killed in Iraq in May 2007. Umbrell was among those who got a "checkbook" account. "I think we're being taken," he says.

The question for Umbrell, Lohman and a million others with these accounts is whether anyone will hear

their cries. State bank regulators say if there are to be any changes, they should be made by their counterparts at state insurance departments. Officials at those state agencies often say they don't even understand what the insurance industry is doing with these "checkbook" payouts.

"It's flown under the radar," says insurance law professor and author Jeffrey Stempel. "Regulators have not done their job."

Until public officials wake up, the bereaved will remain a secret profit center for the life insurance industry.

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