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N.Y. subpoenas MetLife, Prudential on soldier death benefits

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By Jonathan Stempel

NEW YORK (Reuters) - New York's attorney general has subpoenaed MetLife Inc and Prudential Financial Inc as part of a probe into whether life insurers are defrauding families of deceased military personnel by siphoning off millions of dollars of death benefits for themselves.

Attorney General Andrew Cuomo announced the subpoenas of the largest U.S. life insurers on Thursday, one day after the U.S. Department of Veterans Affairs said in a published report that it had begun its own investigation into the issue.

"It is shocking and plain wrong for these multinational life insurance companies to pocket hundreds of millions in profits that really belong to those who have lost family members and have already suffered immensely," Cuomo said in a statement.

MetLife spokesman John Calagna declined to comment, saying the New York-based insurer has yet to see the subpoena.

Bob DeFillippo, a spokesman for Prudential, said the Newark, New Jersey-based insurer will cooperate with Cuomo.

The Department of Veterans Affairs did not immediately respond to requests for comment about its probe, which Bloomberg News earlier reported.

At issue is whether the insurers, rather than pay out lump sums to military families upon the deaths of policyholders, instead would keep money in potentially risky accounts they controlled, known as retained-asset accounts, while paying out low yields to surviving families.

LOW RATES, NON-GUARANTEED ACCOUNTS

Cuomo said the insurers reportedly earned upward of 4.8 percent annually on these accounts, but paid families interest as low as 0.5 percent, less than the rates they might find at their local banks. The insurers' accounts, moreover, are not guaranteed by the Federal Deposit Insurance Corp, Cuomo said.

The attorney general said the subpoenas seek data on how and when beneficiaries learn about the terms and conditions of retained-asset accounts, and data on the differences between interest earned by insurers and beneficiaries.

In a statement issued Wednesday, the American Council of Life Insurers, a trade group, said retained-asset accounts help grieving military families.

"Not surprisingly, financial matters may not be the first thing on their minds," it said, "and retained asset accounts provide a secure place for life insurance policy proceeds to be held until the money is needed."

Cuomo, a Democrat, is the front-runner to become New York's next governor in the November election.

In afternoon trading, MetLife shares were up 83 cents, or 2.1 percent, at \$40.13, and Prudential shares were up 58 cents, or 1 percent, at \$56.02. The Standard & Poor's Insurance Index was up 0.18 percent.

(Reporting by Jonathan Stempel in New York; Additional reporting by Dan Wilchins; Editing by Lisa Von Ahn and John Wallace)

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