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Veterans Agency to Probe Insurer Handling Soldiers' Benefits

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By Tony Capaccio and David Evans

July 29 (Bloomberg) — The U.S. Department of Veterans Affairs is investigating life insurance companies' practice of putting veterans' death benefits in corporate accounts and keeping most of the investment profits instead of paying the survivors.

"The possibility that life insurance companies are profiting inappropriately from these service members' sacrifice is completely unacceptable," Mike Walcoff, acting undersecretary for the agency's Veterans Benefit Administration, said yesterday in a statement that announced the investigation.

Bloomberg Markets magazine reported what has become a standard practice for life insurance policies issued by companies including Prudential Financial Inc. and MetLife Inc.

Instead of paying a lump sum to survivors when a policyholder dies, insurers keep the money in their own accounts, pay uncompetitive interest rates to survivors and give them misleading guarantees about the safety of the funds.

Prudential, the second-largest life insurer, handles life insurance policies for U.S. military personnel and veterans. New York-based MetLife, the largest life insurer in the U.S., provides insurance for nonmilitary federal employees.

"The purpose of these benefits is to assist grieving survivors — not to improve insurance company profits," said Daniel Akaka, chairman of the Senate Committee on Veterans Affairs and a Hawaii Democrat.

'Outraged'

House Veterans Affairs Committee Chairman Bob Filner said he was "outraged" that insurance practices appear to result in "corporations retaining the assets in corporate accounts, profiting from the interest, and failing to pass accrued interest to surviving families." The California Democrat said VA officials should "demand answers" about the program.

The White House "supports the VA's immediate investigation into these unacceptable insurance companies' practices," spokesman Nick Shapiro said in a statement yesterday. President Barack Obama "is committed to fulfilling America's responsibility to our armed forces and their families," Shapiro said.

Survivors are told the death benefit is being placed in a secure interest-bearing account, and they are given what the company calls a "checkbook" to spend the money when they want.

In fact, insurers place the so-called retained-asset accounts in their own general corporate accounts and keep most of the investment earnings. The money isn't guaranteed by the Federal Deposit Insurance Corp., and the "checks" are IOUs for money in the insurer's account.

'Holding Back'

"It's disgusting, particularly in the case of dead soldiers, for insurance companies to be holding back" money from survivors, Robert Hunter, Director of Insurance for the Consumer Federation of America, said in a telephone interview.

State insurance commissioners "should outlaw this practice. They have the power to do it — they can say this is an unfair trade practice," said Hunter, a former Texas insurance commissioner.

The New York State Insurance Department will review the legality of the practice, Deputy Superintendent Matthew Gaul said yesterday. Pentagon spokesman Geoff Morrell said yesterday he had no comment.

The American Council of Life Insurers released a statement saying retained-asset accounts help survivors.

'Significant Benefit'

"Retained-asset accounts provide a significant benefit to family members who are dealing with the emotional loss of a loved one," the council said. "Financial matters may not be the first thing on their minds and retained-asset accounts provide a secure place for life insurance policy proceeds to be held until the money is needed."

Insurers are holding onto at least \$28 billion owed to survivors, according to three firms that handle the retained-asset accounts for about 130 life insurance companies.

House Armed Services Committee Chairman Ike Skelton, a Missouri Democrat, said U.S. troops' survivors must be provided more information about how to handle death benefits. He said insurance companies should be examined to "make sure they aren't misrepresenting the options being offered to surviving family members."

Skelton said his committee will "assist in finding a remedy for this problem."

Since 1999, the VA has allowed Newark, New Jersey-based Prudential to use this procedure in providing benefits to survivors of fallen soldiers. In 2009, the families of U.S. soldiers and veterans were supposed to be paid death benefits totaling \$1 billion immediately, according to their insurance policies. They

weren't.

Interest Rates

In 2008, Prudential paid survivors 1 percent interest on their accounts, while it earned a 4.8 percent return on its corporate funds, according to regulatory filings.

Prudential spokesman Bob DeFillippo said the company's Alliance Account is lawful and is an aid to soldiers' families. MetLife spokesman Joseph Madden said customers are happy with the Total Control Account.

"The TCA affords beneficiaries security, peace of mind and time to make an informed decision -- while earning interest in the interim," Madden said.

Hunter said the VA and Pentagon should provide accurate information on the accounts to military personnel and should "outlaw any insurance company that uses this practice" from using any military facilities to sell the product.

The quasi-banking system operated by insurers has none of the protections of the actual banking system, and the financial regulation overhaul signed by Obama on July 21 didn't address it.

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