CBSNEWS

NEW YORK, July 28, 2010

A Fallen Hero: How an Insurance Company Profited

Katie Couric Reports on One Family's Experience with Dead Soldier Benefits and a Giant Insurance Firm

By Katie Couric

Sgt. Ryan Baumann, 24, was killed by an IED in Afghanistan. **(CBS)**

Previous slide Next slide

(CBS) In nearly a decade of war in Afghanistan and Iraq, 5,620 Americans have died. Survivors of these fallen heroes are entitled to a life-insurance payment and the government uses a private company to handle it. What happened to the mother of 24-year-old Ryan Baumann of Great Mills, Maryland when she tried to collect serves as a lesson to every military family.

According to a Bloomberg Markets Magazine investigation, insurance companies have been profiting off of the death-benefits of fallen heroes.

"Ryan was a neat kid," said Cindy Lohman - Ryan's mother. "He really wanted to join the Army after 9/11 because he saw that, you know, there were things he could do."

CBS Evening News Anchor Katie Couric reports Sgt. Ryan Baumann was as proud of his mission in Afghanistan as his mother is of him. A soldier with the 101st Airborne, he was stationed in eastern Afghanistan - protecting villagers from the Taliban and providing critical services - like repairing pumps supplying water.

"One of the things that he said to me," Lohman said, "he said 'if anything happens to me, just let the world know we're making a difference over here.'"

But on August 1, 2008, Ryan was riding in a Humvee when he spotted an improvised explosive device, an IED.

"He told his driver, 'go left,' and that placed the IED directly under him," Lohman said.

Baumann was killed instantly. The driver, gunner and medic with him all survived.

It was hard to accept life without her son, until a casualty assistance officer asked her to choose how she would like to receive his death benefits.

Lohman said, "I handed the paperwork back to the poor CAO and said 'I don't want it.' And he was very patient and explained that it wasn't an option and that really I had to accept it and had to decide what to do."

She eventually filed, electing to receive a lump sum of $400,000. But the check never came. Instead, she received a check book and a packet from Prudential saying the money had been placed in its "alliance account" where it was "available immediately" and would "begin earning interest" right away.

Everything seemed fine, until she tried using the checks.

"I was told that the check could not be verified," she said.

When did you realize this was some different kind of checking account?

"Sad to say, it wasn't until the journalist contacted me," she replied.

The journalist was David Evans, award-winning senior writer with Bloomberg Markets Magazine.

"The life insurance company is holding onto their money. And that bothers some people, once they find out," Evans said.

Evans' six-month investigative report, appearing today in the magazine's September issue, reveals that Cindy Lohman's money was being held in Prudential's general corporate account -- accruing interest --most of it going to the insurance giant.

Read the Full Report from Bloomberg

"They're able to create quite a float for themselves. They're able to earn the difference between the small interest rate that they pay to the survivors and the larger rate that they're able to make by keeping this money in their corporate investment account," Evans said.

In fact, in 2008 when Cindy Lohman's statement said she was earning less than one percent interest on her Alliance Account, regulatory filings show Prudential was earning almost 5 percent on its corporate account.

"They figured out a way to create these retained asset accounts, they figured out a way to hold onto that money and actually turn death into a profit center," Evans said.

Evans says the practice of pooling and profiting from death benefits is surprisingly common - and extends well beyond the military.

"We were able to determine that there's $28 billion in a million accounts at more than 120 insurance companies across the U.S.," Evans said.

While Prudential's packet boasts words like "control" and "security" in big bold letters, you'd have to read the fine print to find out that Alliance Accounts are not insured by the FDIC.

"They're increasing their profits on all of our children's death benefits. It's sad," Lohman said. "Doing it in a way that puts the money at risk."

They may be turning profits, but at least one veterans' advocate says, any insurance company doing this is "morally bankrupt."

"This is outrageous, that a large insurance company is taking advantage of families at the very time that the American public expects that they be provided everything that they need," said Paul Sullivan of the Veterans for Common Sense.

Outrageous perhaps, but is it legal?

"It doesn't appear to be criminally unlawful," said Adam Scales, Associate Law Professor, Washington and Lee University. "But, it's likely to be civilly unlawful and raises some difficult regulatory boundary questions."

In a statement today, Prudential today told CBS News, "We fully disclose the nature and terms of the account to accountholders, including the interest credited to their account. We also make it clear to beneficiaries that they can withdraw some or all of their money immediately or at any other time and without delay. The interest rate paid to accountholders has been comparable to other on-demand accounts..."

Full Prudential Statement

The Department of Veterans Affairs told us it's deeply concerned and is conducting a full investigation of the life insurance companies and their procedures.

Meanwhile Cindy Lohman says she closed her alliance account on July 8th, and is still waiting to receive the balance. Whenever the money comes, it will be little consolation for a family that's already paid the highest price.

Connect with CBS NewsFacebookTwitterX