

The Washington Post

U.S. pays as Prudential invests troop death benefits

By David Evans
Bloomberg News
Sunday, October 3, 2010; G1

When [Prudential Financial](#) invests the death benefits owed to survivors of U.S. troops killed in battle, the money comes from a source with deep pockets: the federal government.

After a service member dies in combat - including the more than 4,000 who have been killed in Iraq and Afghanistan - the Department of Veterans Affairs sends Prudential the full amount of each family's life insurance coverage, usually \$400,000.

The government has paid Prudential \$1.7 billion for these benefits since 2003, when the war in Iraq began, according to information provided by the VA.

Prudential holds that taxpayer money, invests it and reaps the gains.

Here's how it works: If survivors request a lump-sum payment of the death benefit, Prudential opens a retained-asset account, a quasi-checking account that allows families to draw money when they are ready to spend it.

[\(READ: Washington Post special report on soldier's traumatic brain injuries and coming home a different person\)](#)

Until the money is used, it stays in Prudential's corporate account. There, the insurer invests it, mostly in bonds, making returns as much as eight times what it is paying out to holders of the retained-asset account.

What this means is that Prudential is investing - and profiting from - death benefits owed to service members' families, using money provided by the government.

"They have what appears to be a nice sweetheart deal with the federal government," says Michael Powers, a professor of risk management and insurance at Temple University in Philadelphia. "This strikes me as the same sort of thing as those classic stories of the government paying hundreds of dollars for a wrench or a toilet seat."

Ninety-five percent of survivors paid by Prudential ask for lump-sum payments, the VA says. Since 1999, the company has sent out more than 60,000 Alliance Account checkbooks, instead of checks, covering more than \$7 billion in death benefits when families asked for full payouts.

On average, Prudential holds about 16 percent of survivors' money for at least a year, according to the company. As of June 30, Prudential had \$662 million belonging to military families in its general account, the VA says.

Advertisement

▶ Investor Resources

Should you be sitting in cash right now?



If you have a \$500,000 portfolio, you should download the latest report by *Forbes* columnist Ken Fisher. In it he tells you where he thinks the stock market is headed and why. This must-read report includes research and analysis you won't find anywhere else. Don't miss it!

➔ [Click Here to download your Report](#)

FISHER INVESTMENTS™

Prudential's general account earned 4.2 percent interest in the first half of 2010, regulatory filings show. The company paid survivors holding Alliance Accounts 0.5 percent in the same period.

"It sure looks like the VA provided an ill-conceived giveaway, or that Prudential played the VA like a fool," said Steven Schooner, co-director of the Government Procurement Law Program at George Washington University. "It's a lose-lose proposition for everyone but Prudential."

Prudential spokesman Bob DeFillippo said the professor is wrong.

"Prudential assumes the vast majority of mortality risk for the participants," he says. "We also assume all of the investment risk." He declined to elaborate on what the company's insurance and investment risks are.

The VA says it is taking steps to better help survivors.

"The VA is working to ensure that all aspects of the Alliance Account and all choices to the beneficiary are made absolutely clear and that all facts concerning the administration of the accounts continue to be fully transparent and disclosed," said Thomas Lastowka, the VA director for insurance.

The VA announced on Sept. 14 that Prudential had agreed to stop automatically sending checkbooks to survivors who request a lump-sum payment. Instead, the insurer will offer families the option of receiving the full amount by check.

Decades-old law

The reason why taxpayers pick up the tab for all life insurance benefits owed to the families of troops killed in combat dates back 45 years.

Before the Vietnam War, the U.S. government ran its own life insurance programs, with separate plans specifically created for World War I, World War II and the Korean War. By 1956, the military had closed to new enrollments all of the programs insuring combat forces.

To provide coverage for troops being sent into harm's way in Vietnam, Congress adopted legislation in September 1965 - proposed by the life insurance industry - that created the Servicemembers' Group Life Insurance program.

The law required that, for the first time, the federal government would work with a life insurance company to cover war deaths. Congress also put into the law another mandate endorsed by the industry, which was concerned about the casualty rate in Vietnam.

The Life Insurance Association of America endorsed a provision guaranteeing that the government pay the full costs to the insurance company for death benefits due to families of troops killed in battle.

Nine days after President Lyndon B. Johnson signed the bill into law on Sept. 29, 1965, the VA awarded a no-bid contract to Prudential.

The first taxpayer money made its way into Alliance Accounts in 2003, as service members died in Iraq and Afghanistan, according to VA documents.

After taxpayers covered \$18 million that year, annual payments to Prudential peaked at \$460.9 million in 2007.

Taxpayers sent Prudential \$213.2 million in 2009. The seven-year total of public money going to the company was \$1.7 billion, 95 percent of which went into Alliance Accounts.

Financial cushion

The VA doesn't reimburse Prudential for benefits owed to families of troops who died noncombat deaths, but it does help the insurer in another way. The agency provides a financial cushion.

To do that, it has set premium payments for service members at levels high enough to build up a so-called contingency fund, which Prudential manages. The VA says that fund held about \$835 million as of June 30, 2009.

The contingency fund is too large, Lastowka said, adding that VA actuaries have determined it should hold about \$230 million less. As a result, the VA lowered premium payments by 7 percent, to \$26 a month, starting July 1, 2008.

In 1965, before Congress created the new insurance program, the American Legion tried to persuade lawmakers not to contract with an insurance company.

The nation's largest veterans service organization, chartered by Congress in 1919, expressed concern that the government would set and collect premiums, do record-keeping and pay for war deaths - so there would be no need for an insurance company.

"Nothing remains, really, for the commercial companies to do except realize a profit," American Legion executive John Corcoran said at a hearing on Sept. 9, 1965. "Indemnifying the lives of our servicemen and providing a degree of protection to their parents, widows and orphans is not a business transaction; it is the responsibility of the government."

Peter Gaytan, executive director of the American Legion in Washington, says the organization's position hasn't changed: "We have to overhaul the system so nobody can make profits off soldiers who died in action."

Post a Comment

[View all comments](#) that have been posted about this article.

You must be logged in to leave a comment. [Login](#) | [Register](#)

Submit

Comments that include profanity or personal attacks or other inappropriate comments or material will be removed from the site. Additionally, entries that are unsigned or contain "signatures" by someone other than the actual author will be removed. Finally, we will take steps to block users who violate any of our posting standards, terms of use or privacy policies or any other policies governing this site. Please review the [full rules](#) governing commentaries and discussions. You are fully responsible for the content that you post.

Sponsored Links

PM Experts Earn More

Gain expertise & prep for certification with Villanova - 100% online.
VillanovaU.com/PMP

Staples® Weekly Ad

Find hot tech savings in our Weekly Ad
www.staples.com/weeklyad

Mortgage Rates Hit 3.25%

If you owe under \$729k you probably qualify for Gov't Refi Programs
www.SeeRefinanceRates.com

Buy a link here

© 2010 The Washington Post Company