September 23, 2010

An Open Letter to the Military Community from Prudential Financial:

Many people, including us, have been understandably concerned about misleading and inaccurate information about our Alliance Account that has been widely disseminated, chiefly by the Bloomberg News organization. This misinformation threatens to eliminate an important benefit for the life insurance beneficiaries of our fallen servicemembers. We cannot allow this irresponsible reporting to mischaracterize a widely accepted form of lump-sum distribution, which for more than a decade has provided a safe, efficient and confidential way for the full payment of benefits to beneficiaries of our military servicemembers.

The articles have been inaccurate and reckless because they fail to point out that beneficiaries have always been able to get all of their money when they want it by using the Alliance Account. Prudential does not withhold a penny of the money that belongs to beneficiaries. In fact, we pay interest on it from day one. This information is clearly explained to beneficiaries.

Some of these press accounts have been further misleading by repeatedly stating that these accounts are not federally insured by the FDIC. While the statement is true, it is designed to lead you to believe the accounts are risky, when in fact retained asset accounts have historically been protected by State Guaranty Funds that provide protection of at least $250,000 up to $500,000.

Consumer advocates and the courts have recognized our Alliance Account as a fair way to settle claims for beneficiaries. In an article published Aug. 30, by CBS/Moneywatch, Jane Bryant Quinn noted: “Pru, like most insurance companies, automatically put the lump-sum payouts into what’s known as a retained-asset account. It’s a holding pen for cash—for military and nonmilitary families alike. Beneficiaries get checkbooks and can write checks or ‘drafts’ on those accounts at any time and for any amount, including the lump sum.” She also wrote, “Currently, Pru pays 0.5 percent. That’s the same as my bank pays on money market accounts of at least $50,000. Some banks and credit unions pay more (yes, I should change my bank). Money market mutual funds yield about 0.2 percent today. So for cash you can tap at any time, the insurance company looks okay. If you die while holding a retained asset account, the interest as well as the principal goes to heirs untaxed.” Quinn concludes, “They (retained asset accounts) make sense as a way of managing large lump sums, short term.”

Several federal judges have rejected claims against accounts like the Alliance Account, concluding that beneficiaries are in virtually the same position they would be in had the insurer sent them a check, because consumers can immediately withdraw the full proceeds. On Friday, Sept. 10, a federal judge in Nevada threw out a lawsuit against MetLife that alleged the insurer misled beneficiaries over the use of such an account. Last December, Judge Joseph Greenaway Jr., in federal court in Newark, N.J., asked a plaintiff’s lawyer, “What am I missing here? Your client has the ability to get all of her money from day one.” The judge, who is now on the U.S. Third Circuit Court of Appeals, subsequently dismissed the case.

As for the allegation that there was some secret agreement between Prudential and the Department of Veterans Affairs relating to the use of the Alliance Account, characterizing this as a secret is laughable. Every beneficiary gets information about the Alliance Account before they receive their distribution. If this is a secret deal, it's the most public one in history. The use of the account-based settlements was an established best practice within the life insurance industry at the time the VA agreed to incorporate it in the Servicemembers Group Life Insurance (SGLI) program.

In fairness, Jane Bryant Quinn questions whether the disclosure provided to beneficiaries should be improved. To that end, the Department of Veterans Affairs on Tuesday, Sept. 14, announced measures to do just that. For the record, Prudential supports the changes. We believe the changes will eliminate confusion caused by misleading reporting.

Finally, much has been said about the Alliance Accounts being some elaborate scheme to make money from the deaths of fallen servicemembers—an allegation we deeply resent. In fact, we have lost money under the SGLI contract over the last 10 years.

We would not be as strident in our response to the reporting we have seen if we did not feel it was our obligation to do so. These reports are causing unnecessary anxiety among the beneficiaries of our men and women in the armed forces, not to mention the millions of consumers who have used Alliance Accounts and been satisfied with them for decades.

We know that financial institutions and government agencies make easy targets in today's world, but we are proud to have worked with the Department of Veterans Affairs for more than 44 years and we consider this responsibility an honor and a duty. During that time, we have helped families manage after the loss of those who have sacrificed so much for our country. This remains our heartfelt commitment.