COMMITTEE ON FINANCE
NEWS RELEASE

Max Baucus, Chairman
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BAUCUS OPENS INVESTIGATION INTO PRUDENTIAL SURVIVOR BENEFIT ACCOUNTS

Finance Chairman Begins Investigation into Tax Status of Insurance Company's Interest Earned on Survivors' Death Benefits

Washington, DC - Senate Finance Committee Chairman Max Baucus (D- Mont.) announced today that he is looking into the tax status of earnings by Prudential Financial, Inc. on survivor death benefit accounts in its Servicemembers' Group Life Insurance (SGLI) program. Recent press reports have indicated that upon the death of a SGLI policy holder, Prudential holds the survivor benefits in its own corporate account, instead of paying the benefits to their rightful owner and not crediting earnings on the funds to the beneficiaries.

"If Prudential is exploiting the grieving widows and distressed families of fallen soldiers, it certainly may be time to reassess the tax treatment of profits made off this abuse," said Baucus. "**Instead of reaping huge profits off these tragic losses, Prudential should give the families of these fallen soldiers the interest they earned on their money – the interest they deserve. Life insurance companies should not take advantage of the shock of losing a loved one just to make a quick buck."**

A class action suit filed in July claimed that Prudential collected over $144 million in investment income through the SGLI program in 2009 alone, earning a 5.69 percent return. However, Prudential paid beneficiaries only one percent interest on the income. Baucus requested information about Prudential's handling of the survivor benefit accounts to ensure the tax treatment of Prudential's profits is appropriate and fair.

The full text of Baucus's letter to Prudential follows below.

September 22, 2010

Mr. John Strangfeld
Chairman of the Board and CEO
Prudential Financial, Inc.
751 Broad Street
Newark, NJ 07102

Dear Mr. Strangfeld,

As Chairman of the Committee on Finance, I am concerned about certain alleged abusive investment practices concerning death benefit payments by Prudential. Prudential administers the Servicemembers' Group Life Insurance (SGLI) program which provides low cost group life insurance through the Department of Veterans Affairs. Press reports allege that upon the death of a SGLI policy holder, under the default option, Prudential sends a "checkbook" which includes checks that can be drawn against the benefit owed to the beneficiary rather than providing a lump-sum payout. The checkbook effectively slows down the payment to the beneficiary. Prudential then invests the payment owed to the beneficiary in a retained-asset account which is a part of Prudential's own corporate investment account. A small portion of the investment income generated in the account is paid back to the beneficiary while Prudential pockets the rest. According to a class action suit filed July 29, 2010, for the year 2009, Prudential collected over $144 million on investment income through the SGLI program alone indicating a 5.69% return. However, Prudential paid beneficiaries only 1% interest on the income.

I am very concerned about the utilization of retained-asset accounts and their potential harm to the survivors of our servicemembers. If the press reports are accurate, Prudential is earning over five times as much interest as is being provided to the beneficiaries. These investment earnings are derived from death payments that belong to the beneficiary, not to Prudential. To further the goals of equitable tax administration, please answer the following questions regarding Prudential's retained-asset accounts:

1. Please provide the following information relevant to Prudential's tax obligations:

    a. Please explain the process by which the obligation to pay a death benefit is converted to a retained asset arrangement. Is there an explicit contractual arrangement with written documents that are signed, a phone conversation, or some other process?

    b. How does Prudential treat the income generated in the retained-asset accounts for federal income tax purposes?

    c. What proportion of funds contained within retained asset accounts are never paid-out to beneficiaries?

    d. How are these funds categorized on your books?

    e. Are these funds ever subject to escheat?

    f. How many retained asset accounts does Prudential hold? What is the total dollar amount contained within the accounts? How much profit per year has Prudential earned off the accounts over the last five years?

    g. Are there costs to Prudential in setting up and maintaining the retained asset accounts? What are these costs? Are these costs passed on to the beneficiary in the form of fees?

    h. Does Prudential view the funds in the retained assets accounts as belonging to the beneficiary?

    i. Under the terms of the retained asset account, can the beneficiary take the full amount of the death benefit at any time by writing a check for that total, or are there limitations on taking the full amount?

    j. How does Prudential invest the funds in the retained asset account? What type of investment vehicle does Prudential utilize in the retained asset account?

k. How does Prudential determine the interest rate paid on the retained asset accounts? Do different beneficiaries receive different interest rates? If there are differences, what variables determine the eventual interest rate on the retained asset account? What interest rate is Prudential earning on these funds prior to their disbursement?

l. Are there any fees or penalties associated with disbursements made when the beneficiary utilizes the "checks" provided when the retained assets account is opened?

m. Are the retained assets accounts maintained as segregated accounts or are they pooled with other funds potentially subject to a higher risk under bankruptcy?

n. Do you contract out the check processing and clearing services of the retained asset accounts? Who conducts this work on your behalf? How much do you pay for this service?

o. Do you have any withholding or reporting requirements under present tax law (to the IRS or State tax authorities) with respect to payments from the retained asset account? Do these reporting or withholding obligations, if any, differ from those applicable to death benefit payments made outside the retained asset context?

2. Please provide the following information regarding disclosure of information to beneficiaries:

   a. What is the default option for beneficiaries if they make no other determination for payout options?

   b. If a beneficiary elects to receive a lump sum payout, does Prudential still automatically send the checkbook?

   c. What disclosure is offered to the beneficiary regarding payout options? Please provide relevant examples of beneficiary information and payout options.

3. Under what legal authority is Prudential converting these insurance policies into retained asset accounts prior to their eventually being paid out? Are these accounts considered deposit accounts? If these accounts are not deposit accounts, how do you categorize them? Is Prudential utilizing its thrift charter in order to change the policy into a retained asset account?

I look forward to receiving your response in writing to this inquiry by October 22, 2010. Please contact [staff] at (202) 224-4515 with any questions you may have regarding this letter.

Sincerely,

Max Baucus
Chairman

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