



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

MBA PROFESSIONAL REPORT

**Analysis of Servicemembers' Group Life Insurance (SGLI) Program:
History, Current Issues and Future Implications**

**By: Patrick M. Callan
Christopher M. Schmid
Michael Voogd
June 2011**

**Advisor: David R. Henderson
Associate Advisor: Chong Wang**

Approved for public release; distribution is unlimited

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE			<i>Form Approved OMB No. 0704-0188</i>
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.			
1. AGENCY USE ONLY (Leave blank)	2. REPORT DATE June 2011	3. REPORT TYPE AND DATES COVERED MBA Professional Report	
4. TITLE AND SUBTITLE Analysis of the Servicemembers' Group Life Insurance (SGLI) Program: History, Current Issues and Future Implications		5. FUNDING NUMBERS	
6. AUTHOR(S) Patrick M. Callan, Christopher M. Schmid and Michael Voogd		8. PERFORMING ORGANIZATION REPORT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000		10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A		11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the authors and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol number N/A	
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited		12b. DISTRIBUTION CODE A	
13. ABSTRACT (maximum 200 words) The SGLI program is the military life insurance program overseen by the Department of Veterans' Affairs (VA) but managed and administered by The Prudential Insurance Company of America. Recently, a series of news stories by Bloomberg News reported that the program might not be following the law, and that Prudential was profiting from the deaths of servicemen and women. The primary purpose of this paper was to analyze the news articles for factual content and determine whether the journalistic writing style of the author's research distorted the SGLI program. What we found was that Prudential ran the SGLI in a manner that was actually beneficial to both Prudential and policyholders. We also discovered that Bloomberg used a sensationalist journalistic style, which distorted the facts. This would have the effect of misleading the public and casting Prudential in a negative light.			
14. SUBJECT TERMS Alliance Accounts, Department of Veterans Affairs (VA), Federal Insurance Deposit Corporation (FDIC), Life Insurance, Office of Servicemembers' Group Life Insurance (OSGLI), Prudential, Prudential Insurance Company of America, Retained Asset Account, Servicemember, Servicemembers' Group Life Insurance (SGLI).		15. NUMBER OF PAGES 119	16. PRICE CODE
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UU

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited

**ANALYSIS OF THE SERVICEMEMBERS' GROUP LIFE INSURANCE (SGLI)
PROGRAM: HISTORY, CURRENT ISSUES AND FUTURE IMPLICATIONS**

Patrick M. Callan, Lieutenant Commander, United States Navy
Christopher M. Schmid, Lieutenant, United States Navy
Michael Voogd, Lieutenant, United States Navy

Submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
June 2011**

Authors:

Patrick M. Callan

Christopher M. Schmid

Michael Voogd

Approved by:

David R. Henderson, Lead Advisor

Chong Wang, Support Advisor

William R. Gates, Dean
Graduate School of Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

ANALYSIS OF THE SERVICEMEMBERS' GROUP LIFE INSURANCE (SGLI) PROGRAM: HISTORY, CURRENT ISSUES AND FUTURE IMPLICATIONS

ABSTRACT

The SGLI program is the military life insurance program overseen by the Department of Veterans' Affairs (VA) but managed and administered by The Prudential Insurance Company of America. Recently, a series of news stories by Bloomberg News reported that the program might not be following the law, and that Prudential was profiting from the deaths of servicemen and women. The primary purpose of this paper was to analyze the news articles for factual content and determine whether the journalistic writing style of the author's research distorted the SGLI program. What we found was that Prudential ran the SGLI in a manner that was actually beneficial to both Prudential and policyholders. We also discovered that Bloomberg used a sensationalist journalistic style, which distorted the facts. This would have the effect of misleading the public and casting Prudential in a negative light.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	PURPOSE.....	1
B.	BACKGROUND.....	1
C.	RESEARCH QUESTIONS.....	1
D.	METHODOLOGY.....	2
E.	SCOPE AND LIMITATIONS.....	3
1.	Scope.....	3
2.	Limitations.....	3
F.	BENEFITS OF THE STUDY.....	3
II.	THE SGLI PROGRAM.....	5
A.	INTRODUCTION.....	5
B.	HISTORY/ORIGINS OF THE SGLI PROGRAM.....	5
C.	SGLI SPECIFIC PROGRAM DESCRIPTION.....	7
1.	Deciding Coverage.....	7
2.	Designating a Beneficiary or Beneficiaries.....	8
3.	Period of Coverage.....	9
4.	SGLI Premiums.....	9
5.	Policy Proceeds/Payout Options.....	11
D.	FINANCIAL ROLE OF THE DEPARTMENT OF DEFENSE AND DEPARTMENT OF VETERANS AFFAIRS.....	12
1.	Trail of Premiums.....	12
2.	Extra Hazard of Duty Cost.....	14
III.	EVALUATION OF CHARGES.....	17
A.	INTRODUCTION.....	17
B.	NEWS ARTICLE CHARGES VS. SGLI FACTS.....	17
1.	Prudential Profiting from Deaths of Servicemembers.....	17
2.	Prudential Beneficiaries Denied Cash.....	25
3.	Retained Asset Accounts Not FDIC Insured.....	27
4.	Legal.....	30
a.	<i>Is It Legal to Use Retained Asset Accounts (RAA)?.....</i>	<i>30</i>
b.	<i>Was the Contract Change Legal?.....</i>	<i>35</i>
c.	<i>Is It Legal to Act Like a Bank?.....</i>	<i>37</i>
C.	WELFARE AND THE PARETO EFFICIENCY OF ALLIANCE ACCOUNTS.....	40
1.	Interest Rates Paid on RAAs Vs. Interest Rates on Alternative Financial Products.....	40
2.	Check Vs. Checkbook.....	40
3.	FDIC Vs. State Guaranty Funds.....	41
IV.	CONCLUSION AND RECOMMENDATIONS.....	43
A.	CONCLUSION.....	43

1.	Pareto Efficiency Favors Alliance Accounts.....	43
2.	The Use of Sensational Journalism	43
3.	Poor Disclosure from Prudential and the VA	44
B.	RECOMMENDATIONS.....	44
1.	Bloomberg News.....	44
2.	Prudential—Documentation and Disclosure.....	45
	LIST OF REFERENCES.....	47
	APPENDIX A. SGLV 8286, SERVICEMEMBERS’ GROUP LIFE INSURANCE ELECTION AND CERTIFICATE, DECEMBER 2007.....	55
	APPENDIX B. SGLV 8286, SERVICEMEMBERS’ GROUP LIFE INSURANCE ELECTION AND CERTIFICATE, MARCH 2011	59
	APPENDIX C. AN OPEN LETTER TO THE MILITARY COMMUNITY FROM PRUDENTIAL FINANCIAL: SEPTEMBER 23, 2010	63
	APPENDIX D. PRUDENTIAL ALLIANCE ACCOUNT: HOW THE ALLIANCE ACCOUNT SETTLEMENT OPTION WORKS, MARCH 2008	65
	APPENDIX E. SERVICEMEMBERS’ AND VETERANS’ GROUP LIFE INSURANCE HANDBOOK, REVISED AUGUST 2009; CHAPTER 7: ELECTION OF METHOD FOR PAYMENT OF PROCEEDS.....	75
	APPENDIX F. SERVICEMEMBERS’ AND VETERANS’ GROUP LIFE INSURANCE HANDBOOK, REVISED FEBRUARY 2011; CHAPTER 7: ELECTION OF METHOD FOR PAYMENT OF PROCEEDS.....	77
	APPENDIX G. AMENDMENT TO GROUP POLICY G-32000, THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, SIGNED SEPTEMBER 24, 2009.....	81
	APPENDIX H. AMERICAN COUNCIL OF LIFE INSURERS (ACLI): ABOUT RETAINED ASSETS ACCOUNTS	83
	APPENDIX I. NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC); NAIC PRESIDENT JANE L. CLINE RELEASES STATEMENT REGARDING RETAINED ASSET ACCOUNTS, JULY 29, 2010.....	87
	APPENDIX J. PRUDENTIAL ALLIANCE ACCOUNT MONTHLY STATEMENT, STATEMENT CLOSING DATE MARCH 31, 2011	89
	APPENDIX K. 1965 GROUP POLICY G-32000; THE PRUDENTIAL INSURANCE COMPANY OF AMERICA: SECTION 19: THE CONTRACT.....	91
	APPENDIX L. SGLV 8283 CLAIM FOR DEATH BENEFITS, SERVICEMEMBERS’ GROUP LIFE INSURANCE, SEPTEMBER 2007.....	93
	APPENDIX M. SGLV 8283 CLAIM FOR DEATH BENEFITS, SERVICEMEMBERS’ GROUP LIFE INSURANCE, NOVEMBER 2010.....	95
	INITIAL DISTRIBUTION LIST	101

LIST OF FIGURES

Figure 1.	Average Checking Account Interest Rates from 2006 to 2011	24
Figure 2.	NOLGHA Facts and Figures	29

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 1.	Historical SGLI Maximum Coverage Amounts by Year	7
Table 2.	SGLI Servicemember Coverage Facts — March 2011.	8
Table 3.	Current and Old SGLI Premium Rates as of July 1, 2008.....	10
Table 4.	SGLI Historical Insurance Coverage and Premiums	10

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF ACRONYMS AND ABBREVIATIONS

ABO	Accelerated Benefit Option
AA	Alliance Account
ACLI	American Council of Life Insurers
CBO	Congressional Budget Office
CRS	Congressional Research Service
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
DMDC	Defense Manpower Data Center
VA	Department of Veterans' Affairs
FDIC	Federal Deposit Insurance Corporation
FOIA	Freedom of Information Act Request
GAO	Government Accountability Office
NAIC	National Association of Insurance Commissioners
NOAA	National Oceanic and Atmospheric Administration
OSGLI	Office of Servicemembers' Group Life Insurance
PHS	Public Health Service
RAA	Retained Asset Account
SGLI	Servicemembers' Group Life Insurance
VGLI	Veterans Group Life Insurance

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGMENTS

The authors would like to thank Dr. David R. Henderson and Dr. Chong Wang for their guidance in this academic endeavor. The authors would like to also thank their families for all their love and support throughout the duration of this project, as it would not have been completed without it.

We would like to remember those servicemembers who have paid the ultimate sacrifice in the defense of this country, for it is with their sacrifice that we may live in the greatest country in the world. This project is dedicated in their honor and especially to United States Navy Corpsman, Hospital Corpsman Dustin K. Burnett, 19, from Fort Mohave, Arizona, Killed in Action, June 20, 2008, in Farah Province, Afghanistan.

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

A. PURPOSE

Each servicemember¹ is automatically eligible for the Department of Veterans Affairs (VA) supported Servicemembers' Group Life Insurance (SGLI) program. These members include active and reserve within the Department of Defense (DoD), as well as commissioned officers of the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA), and cadets and midshipmen of the service academies. Our research focuses on analyzing the DoD-sponsored, VA-supervised and the Prudential-managed SGLI program, and compares the SGLI program to the portrayal by recent Bloomberg Markets Magazine (or referred to as Bloomberg News or Bloomberg.com) articles regarding a change to Retained Asset Accounts.

B. BACKGROUND

David Evans, a reporter for Bloomberg News, has reported extensively on the SGLI program and how the military life insurance program is administered. Through the course of many articles written over several months in 2010, David Evans reported on what he perceived to be numerous problems with the Department of Veterans Affairs-supervised and Prudential Life Insurance Company-managed military life insurance program.

C. RESEARCH QUESTIONS

The following questions were used to direct and focus the research in this project.

1. What is the SGLI program?
2. How has the program developed and changed?

¹ For the purposes of this project, "servicemember," vice "service member" or "service-member," is being utilized in order to provide consistency and uniformity with its usage in existing government literature and programs; such as the Servicemembers' Group Life Insurance program..

3. What are the political and financial issues relating to these changes?
4. Are the claims correct?
5. Did Prudential and the VA fail to notify servicemembers of a change in its policy, from one of writing a check to beneficiaries, to one of issuing a “Check book” or Alliance Account? Was the change still a Lump Sum payment?
6. Interest paid to beneficiaries in the Alliance Account is less than what is earned by Prudential on the Alliance Accounts. Is Prudential making a profit off deceased servicemembers or their beneficiaries, and is there something inherently wrong with that?
7. If Alliance Accounts are not FDIC insured, do they need to be? Is Prudential acting like a bank, and is it allowed to do so?
8. If the Alliance Account Change was verbal between Prudential and the VA, was it legal?
9. Is Prudential withholding money from servicemembers?

D. METHODOLOGY

After the SGLI history and operations, we analyzed the Bloomberg news articles’ portrayal of the SGLI program and researched the accuracy of the claims. We then used our research methodology to compare our findings to the Bloomberg articles.

To address these questions and issues, in writing this report we looked at Government Accountability Office (GAO), Congressional Budget Office (CBO), Congressional Research Service (CRS), Department of Defense (DoD), Defense Manpower Data Center (DMDC) and Department of Veterans Affairs (VA) sources and reports addressing the SGLI program and DoD deaths since 2001. We also utilized the Dudley Knox library, its search functions, and online search engines such as LexisNexis, ProQuest and EBSCO.

E. SCOPE AND LIMITATIONS

1. Scope

The scope of our analysis includes:

1. Introduction and Background.
2. History and Summary of Death Benefits Payments and SGLI Program.
3. Analysis of charges and reporting from Bloomberg News on SGLI program.
4. Summary, conclusions and recommendations.

2. Limitations

The primary limitation to this project is that the data used are from reports given from Prudential to the VA, which are not formal financial statements. Financial statements from Prudential were not specifically available for the SGLI program due to their being proprietary records of the Prudential Insurance Company of America.

F. BENEFITS OF THE STUDY

The first potential benefit of this study is determining if the SGLI program is fair, both legally and ethically, to the policyholders (servicemembers), the beneficiaries, and the insurer (Prudential). A second benefit of our research is its addressing of ways the administration of the SGLI program by the DoD, VA and Prudential could be improved. A third potential benefit of the study is to increase public awareness of the SGLI program.

THIS PAGE INTENTIONALLY LEFT BLANK

II. THE SGLI PROGRAM

A. INTRODUCTION

This chapter gives a basic overview of the SGLI program by analyzing the program's origins and historic changes in order to provide a basic understanding of what the SGLI program accomplishes, what it provides, and how it is administered. An overview of the program is necessary in order to identify the various rules and policies within the program as well as what the program is designed to do. Federal Law (38 USC 1965 et seq.) governs the SGLI program and mandates certain requirements that the Department of Veterans Affairs must abide by.

B. HISTORY/ORIGINS OF THE SGLI PROGRAM

The U.S. government insurance business began in 1914 during World War I. With the war in Europe, Congress passed the War Risk Act on September 2, 1914, to provide marine insurance coverage for merchant vessels that supplied European countries fighting the Germans. Then, in 1919, the United States Government Life Insurance program (USGLI – 1919–1951) took the place of War Risk policies (United States Department of Veterans Affairs, 2009b). Because the U.S. armed forces suffered significant casualties in wars, private life insurance companies were not willing to provide coverage for servicemembers. Even though insurance actuaries are fairly reliable in predicting deaths in the armed services during peacetime, it is exponentially more difficult to estimate how many deaths will occur during a war. The U.S. government needed to offset the disadvantages created in time of war. In order to do this, a government sponsored life insurance program was needed to cover servicemembers placed in harm's way. Thus, the current program that we now know of as Servicemembers' Group Life Insurance (SGLI) was then called Servicemens' Group Life Insurance. The modern day Servicemens' Group Life Insurance was born on September 29, 1965, under Public Law 89-214. At this time, SGLI provided up to \$10,000 of group term life insurance to members on active duty (USDVA, 2010b).

When the United States became involved in the Vietnam War in 1965, Congress concluded that a new program of life insurance was needed. Commercial insurance companies lobbied for a role in providing coverage to servicemembers, even though they were unable to provide the coverage themselves. The commercial insurance companies' lobbying was to prevent the government from providing coverage indefinitely after servicemembers separated from the service. As a result of successful lobbying, SGLI provided for group coverage and the program would be administered by the commercial insurance industry and not the government. The establishment of SGLI in 1965 resulted in the Department of Veterans Affairs (VA) purchasing a group life insurance policy from the Prudential Insurance Company of America. Prudential established the Office of Servicemens' Group Life Insurance (OSGLI) to administer the policies. This office is still called OSGLI, although it is now under the name of the Office of Servicemembers' Group Life Insurance, currently located in Roseland, New Jersey, and is administered by Prudential Insurance Company of America some forty-five plus years later (USDVA, 2010b).

SGLI expanded over the years to cover the uniformed services of the Army, Navy, Air Force, Marine Corps, and Coast Guard, as well as Reservists, National Guard members and several other government groups such as the Public Health Service (PHS) and National Oceanic and Atmospheric Administration (NOAA). As applicants are processed into the uniformed services, they are automatically enrolled in the SGLI program and are entitled to decline the coverage in writing. The coverage was limited to \$10,000 at first and has gradually increased over the years to its current maximum amount of \$400,000 (USDVA, 2010b) (Figure 1). After the terrorist attacks of September 11, 2001 and the subsequent wars in Iraq and Afghanistan, Congress passed Public Law 109-13 increasing SGLI's maximum amount from \$250,000 to \$400,000. On September 30, 2005, Public Law 109-80 made permanent the previously maximum coverage of \$400,000 that was authorized under P.L. 109-13 (USDVA, 2010d).

Table 1. Historical SGLI Maximum Coverage Amounts by Year

Year	1965	1970	1974	1981	1986	1991	1996	2001	2005
Coverage Amount	\$10,000	\$15,000	\$20,000	\$35,000	\$50,000	\$100,000	\$200,000	\$250,000	\$400,000

Source: The Department of Veterans Affairs: 5 May 2011

<http://www.insurance.va.gov/sglisite/legislation/legislation.htm>

C. SGLI SPECIFIC PROGRAM DESCRIPTION

For the purposes of this study, our analysis looks at an active duty servicemember who elects to have the full SGLI coverage amount authorized by law, which is \$400,000.

1. Deciding Coverage

The SGLI program begins on the first day of active duty and the member is automatically covered. In order to complete the process, the member must complete form SGLV-8286, *Servicemembers' Group Life Insurance Election and Certificate* (See Appendix A). The member is automatically enrolled for the maximum \$400,000 policy unless he or she decides for lesser coverage. Lesser coverage is allowed only in decrements of \$50,000. If a servicemember does not desire any life insurance coverage the member must decline coverage altogether by writing on the SGLV-8286 form, "I do not want Insurance at this time (USDVA, 2009a)." If a member does not choose coverage when first entering the service, but decides to add the SGLI benefit or if the member chooses to increase the coverage amount, he would be required to provide proof of good health (USDVA, 2009c).

According to LT Nathan Kaspar (personal communication, December 8, 2010), at the Navy's Personnel Command, Navy Casualty Assistance, in his capacity as the Head of Navy Casualty Operations and Navy/USMC Mortuary Division Officer, 98-99 percent of the Navy casualties that he sees have full SGLI coverage in the amount of \$400,000. He stated "Very few sailors do not have coverage."

Table 2. SGLI Servicemember Coverage Facts — March 2011.

SGLI Program – Servicemember Coverage Facts	
Opened	September 29, 1965
Number of Members Covered	2,433,500
Total Amount of Insurance in Force	\$913,345,223,000
Average Coverage Per Member	\$375,322
Average Attained Age	29.9
Average Annual Death Rate	0.96 per 1,000

Source: Department of Veterans Affairs Website.

2. Designating a Beneficiary or Beneficiaries

The next step in completing the form is to designate a beneficiary or beneficiaries and select the amount that each beneficiary would receive, either as a percentage, a dollar amount or a fraction of the \$400,000. For example, if two beneficiaries are listed, a member could specify 50% to Beneficiary A and 50% to Beneficiary B, or could designate \$300,000 to Beneficiary X and \$100,000 to Beneficiary Y. The final step in completing the SGLI Election and Certificate form is with regard to the payment option for the beneficiary(ies). Per the Department of Veterans Affairs form SGLV-8286 (original form prior to the change made in November 2010 and March 2011) (See Appendix B), the law requires a servicemember to have two and only two options for payout: (1) in a lump sum or (2) in 36 equal monthly installments (USDVA, 2009b).

Once the member has made his selection on coverage, the member must sign and date the SGLV-8286 and have it witnessed by a command representative. Once the form is completed, it is submitted to the command's personnel office for entry into the official record of the member and is forwarded to the service branch personnel headquarters for archival and for reference should the servicemember die. It is the responsibility of each service to retain the original copy should it be required by Prudential for a policy payout. A copy is neither filed nor retained by the Department of Veterans Affairs, or Prudential's Office of Servicemembers' Group Life Insurance (OSGLI). When completing the SGLV-8286, the command assisting the servicemember with the completion of the form is required to inform the member that he may seek the advice of a

military attorney (Judge Advocate General – JAG) at no expense to the member with regard to any legal questions about the form (USDVA, 2009a).

3. Period of Coverage

The servicemember's SGLI coverage remains in effect until the member leaves the service, cancels the policy or dies. The life insurance covers the member whether the member is in a duty status (at work) or off duty (at home or on leave from the service), and is covered 365 days a year, no matter what activity he or she is engaged in. The policy will be paid to the beneficiary(ies) regardless of whether the member's death is caused by war or by accident or natural causes and regardless of whether he is killed on or off military duty. The servicemember is also covered by SGLI for 120 days after leaving the service (USDVA, 2009c).

4. SGLI Premiums

The maximum premium for an active duty member with \$400,000 coverage regardless of gender, age or health, is \$26.00. Also, there is a \$1.00 premium for Traumatic SGLI coverage, bringing the total monthly premium to \$27.00 (See Fig. 3). The \$27.00 is collected every month by the Defense Finance and Accounting Service (DFAS) directly from the servicemembers' pay and transferred to the Department of Veterans Affairs, which in turn transfers the funds to Prudential via a revolving account. The actual breakdown of SGLI coverage is \$6.50 per every \$100,000 in coverage or \$0.65 per every \$1,000 of coverage for a total of \$400,000 (USDVA, 2009c). In policy years ending June 30, 2009 and June 30, 2010, premiums collected were \$677 million and \$682 million respectively (USDVA, 2009b, 2010d).

Table 3. Current and Old SGLI Premium Rates as of July 1, 2008.

OLD SGLI Premium Rate				CURRENT SGLI Premium Rate Effective July 1, 2008			
Coverage Amount	Monthly premium rate	TSGLI Premium	Total Monthly Premium Deduction	Coverage Amount	Basic Premium Rate	TSGLI Premium	Total Monthly Premium Deduction
50,000	\$3.50	\$1.00	\$4.50	50,000	\$3.25	\$1.00	\$4.25
100,000	\$7.00	\$1.00	\$8.00	100,000	\$6.50	\$1.00	\$7.50
150,000	\$10.50	\$1.00	\$11.50	150,000	\$9.75	\$1.00	\$10.75
200,000	\$14.00	\$1.00	\$15.00	200,000	\$13.00	\$1.00	\$14.00
250,000	\$17.50	\$1.00	\$18.50	250,000	\$16.25	\$1.00	\$17.25
300,000	\$21.00	\$1.00	\$22.00	300,000	\$19.50	\$1.00	\$20.50
350,000	\$24.50	\$1.00	\$25.50	350,000	\$22.75	\$1.00	\$23.75
400,000	\$28.00	\$1.00	\$29.00	400,000	\$26.00	\$1.00	\$27.00

Source: Department of Veterans Affairs Website.

Table 4. SGLI Historical Insurance Coverage and Premiums

Year	Coverage Amount	Monthly Premium Per \$1,000	Premium Amount
1965	\$10,000	\$0.20	\$2.00
1972	\$15,000	\$0.17	\$2.55
1978	\$20,000	\$0.15	\$3.00
1982	\$35,000	\$0.116	\$4.06
1984	\$35,000	\$0.08	\$2.80
1986	\$50,000	\$0.08	\$4.00
1991	\$100,000	\$0.08	\$8.00
1996	\$200,000	\$0.08	\$16.00
1997	\$200,000	\$0.085	\$17.00
1998	\$200,000	\$0.080	\$16.00
2003	\$250,000	\$0.065	\$16.25
2005	\$400,000	\$0.065	\$26.00
2006	\$400,000	\$0.07	\$28.00
2008	\$400,000	\$0.065	\$26.00

Retrieved from the Department of Veterans Affairs Website: 5 May 2011

<http://www.insurance.va.gov/sglisite/legislation/legislation.htm>

5. Policy Proceeds/Payout Options

When the servicemember completes the SGLI enrollment form, he has the option to select either the lump sum or the installment method for the listed beneficiaries. If the Lump sum option is chosen, the method of payment will be made to the beneficiary through a Prudential managed Alliance Account. An Alliance Account is Prudential's trademark name for a Retained Asset Account (RAA). According to the Federal Deposit Insurance Corporation (FDIC), "A Retained Asset Account is an insurance company product in which the beneficiary of a life insurance policy receives proceeds in the form of an account provided by the insurance company in lieu of a lump sum payment (FDIC, 2010)." This is not a bank account and is not FDIC protected, since it is an insurance product. Normally, the payout action will take place within 1–2 weeks after the servicemember has died. How long depends on how quickly the insurance company received an official military or state death certificate confirming that the servicemember has died. The full SGLI policy amount will be placed in the Alliance Account for the beneficiaries' use. For example, if a servicemember dies with a \$400,000 policy and has the lump sum option on his SGLI form, within a short time after OSGLI receives all the official paperwork and death certificate, the beneficiary will receive a package and a "check book" which he can use to write a check from the Alliance Account for the full \$400,000 and deposit it in his personal checking account (or any other financial account) or keep it in the Alliance Account at no cost to the beneficiary. The Alliance Account acts like a "checking account." The money in the account earns interest (currently reported to be .5 to 1% annually), backed by Prudential the strength of Prudential's financial portfolio. The interest and the proceeds are both tax free (USDVA, 2009c).

If the installments option were selected, 36 equal monthly installments starting at the date of death will be sent to the listed beneficiaries. Once the completed claim forms and an official State or Military death certificate are filed and the claim is approved, the first installment is sent upon receipt, which could be a few months after the official date of death. The amount of each monthly installment would be calculated to include interest on the unpaid balance (USDVA, 2009c).

The last way proceeds can be received is through an Accelerated Benefit Option (ABO). This is where the policyholder is terminally ill and would be given partial access to his death benefits. If this option is selected, the terminally ill policyholder will have access to 50% of the face value of the policy in his lifetime, where the money will be available in \$5,000 dollar increments. The insured must have a medical prognosis of a life expectancy of nine months or less (USDVA, 2009c).

D. FINANCIAL ROLE OF THE DEPARTMENT OF DEFENSE AND DEPARTMENT OF VETERANS AFFAIRS

1. Trail of Premiums

After the servicemember completes the SGLI enrollment form, the form is then processed and the member would begin paying the monthly premium via an allotment from his military pay from DFAS. The premiums collected by DFAS are then transferred to the VA Insurance Service Center in Philadelphia, PA. According to Mr. Stephen Wurtz, the Deputy Assistant Director for Insurance at the Department of Veterans Affairs, the VA receives 15 separate payments during the course of the month (from Army active duty, Army Reserve, Navy active duty, Navy Reserve etc.). Each payment is reviewed by the VA Insurance staff, and then sent to an independent Internal Control Unit which checks that the voucher matches the amount of money, etc. The Insurance staff then records the payments, and electronically forwards the payment to Prudential the same day, unless it is received from DoD late in the afternoon. This is important because it allows the money to begin earning interest quickly – and all interest is paid into the SGLI account that Prudential manages. The VA forwards the premiums to Prudential's OSGLI account. When an SGLI enrolled servicemember dies, the proceeds are then credited from Prudential's OSGLI account either to an Alliance Account for the beneficiary or to the beneficiary via the installment method of payment (S. Wurtz, personal communication, May, 4, 2011).

Prudential manages the day-to-day payouts of SGLI and reports to the VA's Regional Office and Insurance Center in Philadelphia, PA. Since 1999, Prudential has opened and managed approximately 60,000 Alliance Accounts (Congressional Research

Service, 2010). Prudential currently uses 20 additional insurance companies as reinsurers and converters, and an additional six act as converters only (USDVA, 2010d). Reinsurance takes on the risk profile of the insurers that they reinsure. Put simply, reinsurers pay a portion of the claims reinsured in excess of a threshold, in exchange for a premium paid to assume the risk. According to Title 38 of the U.S. Code, under Pensions, Bonuses, and Veterans' Relief, Part 9—Servicemembers' Group Life Insurance and Veterans' Group Life Insurance:

The allocation of insurance to the insurer and each reinsurer will be based upon an amount of the total life insurance in force under the policy in proportion to the company's total life insurance in force in the United States where the first \$100 million in force is counted in full, the second \$100 million in force is counted at 75 percent, the third \$100 million in force is counted at 50 percent, the fourth \$100 million in force is counted at 25 percent, and any amount above \$400 million in force is counted at 5 percent (GPO Access. 2010).

Conversion occurs when a term insurance policy, such as an SGLI policy, is converted to a renewable term insurance policy such as Veterans Group Life Insurance (VGLI) when a servicemember leaves the service and chooses to transition the SGLI policy to a veteran's policy (VGLI). According to Mr. Stephen Wurtz, the Deputy Assistant Director for Insurance at the Department of Veterans Affairs, "Conversion' is a word of art in the insurance industry. It refers to the privilege an individual sometimes has when going from one insurance situation to another, often when 'converting' from term insurance to permanent plan insurance, or in our case, when 'converting' one's SGLI coverage to VGLI, or to a commercial policy. It's the guaranteed right to get the successor policy WITH NO UNDERWRITING (no health questions)," (S. Wurtz, personal communication, March 31, 2011).

Mr. Wurtz also states,

So in the SGLI program, for example, it's a very valuable benefit for those who have been injured in service to their country and would not be able to buy life insurance on the commercial market, or could do so only by paying a 'rated' (higher) premium, because their injuries or illness have made them uninsurable at 'standard' premium rates (S. Wurtz, personal communication, March 31, 2011).

Mr. Wurtz is referring to the fact that an injured servicemember who leaves active duty and has a disability can still get coverage through the VA's VGLI insurance program, whereas other insurance companies would charge the servicemember higher premiums due to his or her injuries or disability. Mr. Wurtz continues:

The SGLI program has insurance companies that have agreed to be "converters." When an insured wants to convert they are given a "dual application" package which they submit to any of the participating insurance companies they choose. If they are healthy enough for standard coverage, that's what they buy. If they are not, they are sold a policy, and that policy is placed in the "conversion pool." The conversion pool is a financial mechanism that ensures the company that sells the policy neither profits nor loses money from the policy. The Conversion Pool is managed by Conversion Pool Managers, a group of [usually five] individuals, generally actuaries, from the participating companies. These individuals receive no additional compensation for their participation (S. Wurtz, personal communication, March 31, 2011).

According to the VA's Forty-Fifth Annual report on SGLI, servicemembers' premiums totaled over \$682 million ending June 30, 2010, and, overall, 2.4 million covered servicemembers were insured for \$908 billion of life insurance coverage (USDVA, 2010d).

2. Extra Hazard of Duty Cost

Prudential also receives money called the Extra Hazard Payment from the Department of Defense, which is first sent directly to the VA. The Extra Hazard Payments are paid by each branch of service as required by law, to pay for the claims due to extra "hazards" or deaths caused by military service, typically combat related deaths (USDVA, 2010d). These are deaths that would otherwise exceed the normal actuarially expected number of peacetime deaths and, therefore, the DoD pays the full cost for the death. The Extra Hazard Payment is then sent to Prudential and deposited in Prudential's OSGLI account. The amount to be paid is determined by the VA actuaries after they have studied the mortality rate of servicemembers for the most recent three years (CRS, 2010). According to Christine Scott, Specialist in Social Policy for the Congressional Research Service, "If the actual death claims exceeds the estimated deaths claims, the

excess claims are multiplied by the average amount of insurance per member to determine the extra hazard cost for each uniformed service” (CRS, 2010, p.6).

The Extra Hazard Payments are included under the Department of the Navy’s yearly budget submission to Congress under Navy Military Personnel, Budget Activity 6: Other Military Personnel Costs, SGLI Extra Hazard Payments. In FY 2009, actual payments from the Navy to the VA for Extra Hazard totaled \$55 million (U. S. Department of the Navy, Comptroller, 2011).

THIS PAGE INTENTIONALLY LEFT BLANK

III. EVALUATION OF CHARGES

A. INTRODUCTION

This chapter gives an overview of some of the charges laid against Prudential and the Department of Veterans Affairs SGLI program in recent media reports. In particular, more than twenty articles written mainly for Bloomberg Markets Magazine and posted online at Bloomberg.com are the sources of discussion and conflict in the Department of Veterans Affairs, the Department of Defense, Congress, Prudential and various veterans' groups. Of the series of SGLI articles, which henceforth will be referred to as the "Bloomberg articles," all were written by David Evans of Bloomberg News and his colleagues with the majority written by Evans himself. We analyzed these charges to determine whether they were valid, and accurately portrayed the SGLI program and VA policy.

B. NEWS ARTICLE CHARGES VS. SGLI FACTS

1. Prudential Profiting from Deaths of Servicemembers

A July 28, 2010 article by David Evans from Bloomberg Markets Magazine sent shock waves through the Department of Defense, Department of Veterans Affairs, and Congress—as well as many veterans groups. The article, entitled "Fallen Soldiers' Families Denied Cash as Insurers Profit," was the first in a series of roughly twenty articles written by Evans and colleagues at Bloomberg News. The series portrayed the SGLI Program—which is supervised by the Department of Veterans Affairs and managed by Prudential Life Insurance—as a scheme or fleecing of beneficiaries while insurers profit. The article title alone made it sound as though insurance companies were making money from insurance policies while fallen servicemembers' families (or other beneficiaries) were denied access to the insurance policy payouts, or in the article's words, "denied cash" (Evans, 2010a).

This section of the thesis discusses various sides of the issue. The material is organized as follows: First, several claims or allegations made by Evans and colleagues are presented, in the form of quotes attributed to deceased servicemembers' families, as well as legal and insurance experts. Each quote is then followed by the major claim the article made, which is then followed by the findings of our research and analysis. From time to time, we also present questions that we think need to be answered in order to provide balanced coverage of the issue.

Throughout many of the Bloomberg articles (among them Evans, 2010a & 2010d), opinions from individuals were quoted with regard to the use of Retained Asset Accounts (RAAs). One such interviewee was Cindy Lohman, the mother of a deceased servicemember, who was quoted as saying, "It's a betrayal. It saddens me as an American that a company would stoop so low as to make a profit on the death of a soldier. Is there anything lower than that?"(Evans, 2010a) The use of this quote suggests that insurance companies are earning money from the death of servicemembers, and that doing so is morally repugnant. Here is how the quotation was placed in the published article:

"I'm shocked," says Lohman, breaking into tears as she learns how the Alliance Account works. "It's a betrayal. It saddens me as an American that a company would stoop so low as to make a profit on the death of a soldier. Is there anything lower than that?" (Evans, 2010a)

Millions of bereaved Americans have unwittingly been placed in the same position by their insurance companies. The practice of issuing what they call "checkbooks" to survivors, instead of paying them lump sums, extends well beyond the military. Other major insurance companies such as MetLife have also been using RAAs. MetLife has a RAA program like Prudential's, and calls it a "Total Control Account" (Evans, 2010a).

After stating that Ms. Lohman is saddened by the insurance company's profiting from an insurance policy for a dead soldier, author David Evans used the words of Ms. Lohman to make it sound like a terribly unethical situation in which an insurance company, in business to provide a service as well as make a profit, is doing just that—making a profit. The Bloomberg article continued by quoting insurance law professor Jeffrey Stempel, at the William S. Boyd School of Law at the University of Nevada, Las Vegas. Professor Stempel was quoted as saying:

It's institutionalized bad faith... In my view, this is *a scheme to defraud* by inducing the policyholder's beneficiary to let the life insurance company retain assets they're not entitled to. It's turning death claims into a profit center [emphasis added] (Evans, 2010a).

Bloomberg's use of this quote from Professor Stempel implies that Prudential is defrauding beneficiaries of their rightful money and profiting where the company would otherwise not.

Bloomberg also took issue with what it implied was a low rate of return provided by the Retained Asset Accounts (Evans, 2010c). Evans wrote that Prudential paid one percent interest on the Retained Asset Accounts in July of 2008 (Evans, 2010c). By comparison, in July 2008 the average interest rate paid on an interest-bearing checking account was approximately 1.48%, according to Bankrate.com (Bankrate.com, April 2011). However, Prudential claimed that its interest rates on Alliance Accounts were competitive and—even with the use of the Retained Asset Accounts—that Prudential was losing money on the program. In a letter dated September 23, 2010, entitled “An Open Letter to the Military Community from Prudential Financial,” and published in newspapers across the country, Prudential wrote, “In fact, we have lost money under the SGLI contract over the last 10 years” (See Appendix C) (Jowers, 2010). Note, though, that Prudential did not say that it was losing money in the most recent years.

The Prudential letter also stated, regarding reporting by the Bloomberg articles:

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 (Prudential Letter, September 23, 2010).

The letter also stated:

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 (Prudential Letter, September 23, 2010).

This statement from Prudential directly asserts that the Alliance Accounts are not making Prudential a profit on the SGLI contract (Jowers, 2010). This seems to be a very important assertion by the second largest U.S. insurance company in the nation (second behind MetLife) that they are in fact losing money on the military's SGLI program. Why would a major insurance company readily admit that it is losing money unless that was really true? The fact is that Prudential took out a full-page advertisement in newspapers across the country to refute the Bloomberg news stories that were stirring up negative media attention and questions about its business practices and profit.

Once Prudential receives the required paperwork to pay the beneficiary, the funds are classified as a Retained Asset Account and are actually held in Prudential's general corporate account. According to a website provided as a public service by Advocate Law Group P.C:

Most insurance companies began paying death claims through Retained Asset Accounts to earn "spread" -- a profit between the "short term rate" that is paid by banks and money market funds and the typically higher interest rates life insurers earn from their long term bond and mortgage investments. Depending on prevailing interest rates, "spread" will typically range from 1% to 3% of the money on deposit in the Retained Asset Accounts. Even after the insurance company pays all the expenses of providing beneficiaries with the Retained Asset Accounts, the net result can be a decent extra profit (Retainedassetaccounts.com, 2011).

Prudential's Retained Asset Accounts do create *revenue* (but not necessarily *profit*) off interest earned in the general corporate account. Due to lack of information, we cannot determine whether Prudential in fact makes a *profit* off the entire SGLI program in conjunction with the Retained Asset Accounts. This is due to Prudential's financial statements not being detailed enough to differentiate between interest earned in the general account with the Alliance Accounts and interest earned in the general account without the Alliance accounts. It should be noted that revenue and profit are two distinctly different financial terms and to the average reader can be construed as meaning the same.

The issue over Retained Asset Accounts sparked several lawsuits including one by plaintiffs Kevin and Joyce Lucey, whose son Kevin served in Iraq and committed

suicide in 2004. In *Lucey v. Prudential*, 10-30163, U.S. District Court, District of Massachusetts (Springfield), the plaintiffs sought the difference between the profit that Prudential made on these accounts and what they paid to the beneficiaries, claiming that *all* the profits made on the accounts belong to beneficiaries, not Prudential (*Kevin and Joyce Lucey and Tracy Lynn Reece Eiswert v. Prudential Insurance Company of America, Class Action Complaint*, 2010).

In another case, *Garcia v. Prudential*, a plaintiff made these same charges. Mrs. Kathryn Garcia argued that Prudential breached the terms of her husband's contract (life insurance policy) and that Prudential delayed paying her life insurance benefits was so that the company could invest the benefits and make a profit from those investments from the death of her husband Nick. Nick Garcia had three life insurance policies with Prudential and Mrs. Garcia was paid via an Alliance Account. The case against Prudential claimed that the insurance company had "engaged in a practice of delaying the payment of life insurance benefits due to beneficiaries so that it could (a) invest the benefits, in a manner not disclosed to the beneficiaries, and (b) make a profit from the earnings resulting from those investments during the period of delay." (*Garcia v. Prudential*) On that point the judge ruled that unless the contract states otherwise, there is "no duty to segregate (a beneficiary's) funds from an institution's general assets" (*Kathryn Garcia v. The Prudential Life Insurance Company of America, Civil Action No. 08-5756*, 2009).

According to Prudential's letter to the military community, "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" (Prudential Letter, September 23, 2010). Prudential also argued that on September 10, 2010, MetLife won a victory when a federal judge in Nevada threw out a lawsuit against them alleging that MetLife "misled beneficiaries over the use of such an account." In December 2009, the Honorable Joseph Greenaway Jr., in federal court in Newark, New Jersey, asked a plaintiff's lawyer, "What am I missing here? Your client has the ability to get all of her money from day one." Judge Greenaway dismissed the case (Prudential Letter, 2010).

In the Bloomberg article dated September 14, 2010 titled, “How Prudential Cut a Deal with the VA,” David Evans paraphrases law professor Stempel, “...that regardless of the outcome of that lawsuit, it’s clear that Prudential and the VA wrongly manipulated a federal contract at the expense of military members and their relatives.” Then Evans quotes Professor Stempel directly, “At a minimum, survivors ought to be made whole with their missed interest.” “The VA really seems to have had the best interests of the insurance company at heart, instead of those of the soldiers and their families” (Evans, 2010c).

The Bloomberg article of July 28, 2010 and subsequent Bloomberg articles suggest that it is “low” or a “betrayal” for insurance companies to profit from the payout of a policyholder’s contract. It is very easy to suggest that actions are shameful when they occur by for-profit organizations that deal with the death of servicemembers. Interestingly, though, the article does not mention the fact that beneficiaries are free to withdraw all of the RAA funds or just receive a lump sum check from Prudential and to deposit that money in another financial institution.

In assessing the merits of Bloomberg’s allegations, a few questions should be considered. Among them are:

1) Once a beneficiary puts the death payout in his own personal bank, is not that bank profiting off the death of the servicemember? Investment companies or financial institutions who accept life insurance checks from the death of a servicemember are also in the business of loaning out that money that they receive as a deposit. They pay the beneficiary interest on the funds and also create new loans and generate interest on those new loans as well.

2) Is this shameful or unethical? In other words, if Cindy Lohman or another beneficiary received a lump sum check for her son’s death and deposited that check into a bank, then one could argue that the bank would be profiting from the death of her son, if it profitably re-invested the money that was deposited. Is there anything wrong with that?

3) Is the fact that the life insurance company gets to keep the payout in its own accounts illegal? One could argue that is not illegal because for more than twenty years, insurance companies have been doing just that, using Retained Asset Accounts to generate revenue for the firms, and no court has ruled that it is illegal or violates any specific laws.

When servicemembers pay Prudential to provide them life insurance, and they then die, it's easy to mix the emotions concerning the death of the servicemember with the issues around the beneficiary payout. It appears that, while grieving, Ms. Lohman (and many others) may have done this. She was quoted as saying, "It's like you're paying me off because my child was killed . . . It was a consolation prize that I didn't want" (Evans, 2010a). The fact is that Ryan Lohman, Cindy Lohman's son, wanted to provide his beneficiary, his mother, money in the event that he died. In essence, the "consolation prize" Cindy Lohman calls her beneficiary payout, is from her son, not Prudential. Prudential was fulfilling its contractual obligation to Ryan Lohman "because" he died, not because of "how or why" he died. Whatever Prudential's responsibility, it had no role in her son's death.

The average six-year interest rate on checking accounts, obtained from Bankrate.com from April 2006 to April 2011, was 1.13%. This average is more comprehensive than the 0.50% Bloomberg uses. The difference is 0.63%. When one examines the yearly rates in Figure 5, it looks as if Bloomberg picked one of the highest differences between interest rates paid by banks and interest rates paid by Prudential.

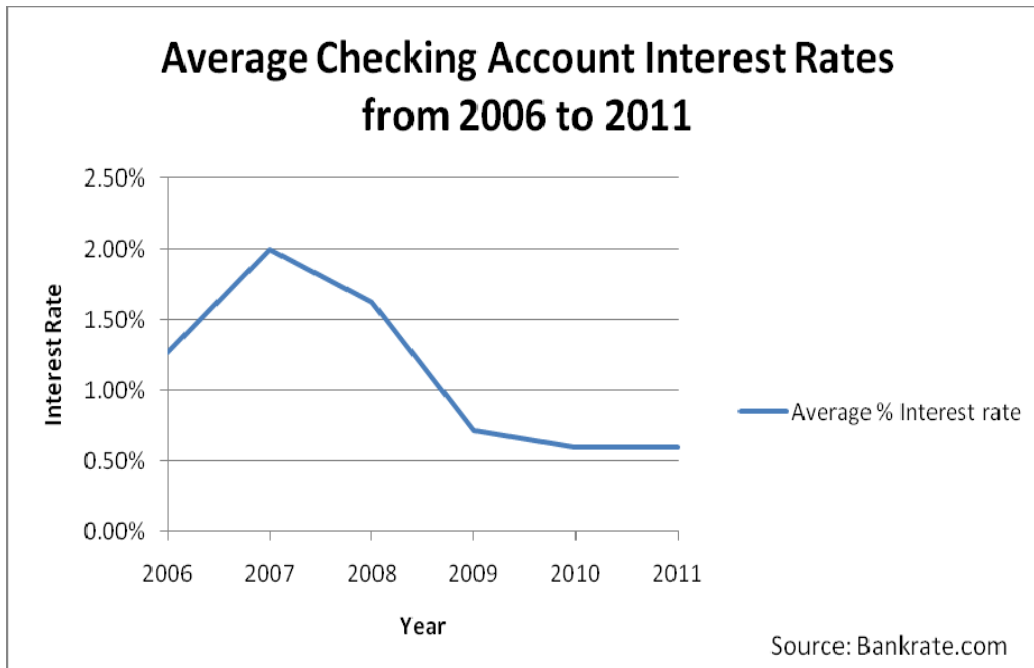


Figure 1. Average Checking Account Interest Rates from 2006 to 2011

The Bloomberg News articles fail to mention two aspects of the Alliance Accounts. The first is that the Alliance Accounts are very small compared to the General Account; the second is that it fails to mention how it earns interest from its General Corporate Account.

Marlene Satter, writing about an interview with Bob DeFillippo, Chief Communications Officer for Prudential Life Insurance Company of America, for AdvisorOne.com, an online investment publication states:

It’s not that simple. He points out that there are different types of investments in that general account—both short- and long-term vehicles that pay different rates of interest. Some are very short-term, so that the company has the ability to pay out to beneficiaries on demand. “To pay interest to beneficiaries on demand,” he says, “we have to invest money in short-term interest-bearing investments. It’s comparing apples and oranges to compare the total return on the general fund to the interest rate we pay on the Alliance Account. It’s more accurate to look at the portion of the general account invested in short-term assets so that we have liquidity” (Satter, 2010).

In a column written about insurance payouts, CBS/Moneywatch's Jane Bryant Quinn had this to say about RAAs:

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 (Quinn, 2010).

2. Prudential Beneficiaries Denied Cash

As previously discussed, the first part of the title of "Fallen Soldiers' Families Denied Cash as Insurers Profit" implies that servicemembers' beneficiaries are denied their benefits. The article references Cindy Lohman's inability to use the checks on two separate occasions, and places blame on the use of Retained Asset Account checks.

"The "checks" that Cindy Lohman wrote, the ones rejected by retailers, were actually drafts, or IOUs, issued by Prudential. Even though the "checks" had the name of JPMorgan Chase & Co. on them, Lohman's funds weren't in that bank; they were held by Prudential" (Evans, 2010a).

This quote implies that the checks Lohman used were not really checks at all and therefore operate differently somehow. The article goes on to explain that before a check could clear, Prudential would have to send money to JPMorgan. This is listed as evidence that these accounts were not what they seemed, and were part of a "scheme" to deny funds to beneficiaries.

Prudential claims that the beneficiary was not denied her money at all and, in fact, had already accessed most of it. "In a letter on August 4, answering a request from New Jersey insurance regulators, Prudential explained that 25 checks from the mother's (Cindy Lohman) account were cleared from October of 2008 to April of 2010, at which point most of the benefits were withdrawn" (Roth, 2010). This fact was left out of the Bloomberg articles.

As a matter of law, a ruling has been issued on the matter of whether or not Retained Asset Accounts serve to deny insurance benefits. As discussed earlier, in

Garcia v. Prudential, filed in New Jersey on November 21, 2008, the widow Nick Garcia sued the insurance company, claiming that she was denied her benefits (*Kathryn Garcia v. The Prudential Life Insurance Company of America*, 2009). Specifically, her complaint stated that Prudential engaged in a practice of delaying the payment of benefits so that the company could invest the money and make a profit from the earnings resulting from those investments during the period of delay. In December 2009, the judge in the case disagreed and in his ruling against Mrs. Garcia, Judge Greenaway, Jr. stated, “The benefits remained accessible to Plaintiff at all times, and she could choose to withdraw any portion of funds greater than \$250 -- up to and including the entirety of her benefits - - at any time, at no charge” (*Kathryn Garcia v. The Prudential Life Insurance Company of America*, 2009). Parenthetically, Judge Greenaway has since risen to preside on the U.S. Third Circuit Court of Appeals.

An article published in 11 August 2011 by Insurancerate.com states:

During an interview with The Wall Street Journal, the soldier's mother, Cindy Lohman of Maryland, said she believes the fact that additional checks cleared should not be sufficient evidence of the propriety of insurers' payout practices. She claimed checks that actually cleared did not always do so "in a timely fashion" or as efficiently as she thinks they might have if they money had been deposited at a traditional bank. She said those setbacks did not prompt her to move the funds from Prudential initially because "your focus isn't on how you're going to manage the bank account" when mourning a child (Roth, 2010).

Because Lohman admits that she was not denied money, it lessens the credibility of the Bloomberg article. She was not denied money at all, and she says she just wanted the checks to clear more quickly. It is unclear why this would be important to Lohman, as she would promptly receive the goods or services she paid for with the checks. In fact, she would increasingly benefit—if only slightly —the longer it took the checks to clear, as she would be earning interest on that money until they did.

Several sources have reported conflicting information regarding the ability to use checks only as drafts, to deposit money from the Alliance Account to the beneficiary's checking account. In an October 18, 2010 Congressional Research Service (CRS) report Christine Scott, Specialist in Social Policy, states, “However, unlike checks, drafts may

not be used to make purchases at the point of sale. Instead, the beneficiary must write the draft and deposit it into his or her checking account where the money will be transferred from the beneficiary's Alliance Account" (CRS, 2010). However, according to the Prudential's Alliance Account introduction letter to beneficiaries, this claim is false:

The funds in your Alliance Account are available immediately. Simply use the enclosed drafts ("checks") to access the account at any time you wish. You can write a check to yourself (which you can cash or deposit at your own bank) or write a check to another person or to any business as you need your funds (Prudential Alliance Account Kit to Beneficiaries, Pg 5). (See Appendix D).

The original July 28, 2010, Bloomberg article mentions that Lohman used the check at two stores but did not mention whether she was able to use the checks at other stores. Nor did Evans mention whether there were other reasons the two checks were not cashed, such as the stores requiring two identifications to cash a check, or if they didn't accept checks at all (Evans, 2010a).

By using the title, *Fallen Soldiers' Families Denied Cash as Insurers Profit*, the article implies that beneficiaries attempted to access their money but were not allowed to receive it, and the insurance company profited from the funds being denied. In Cindy Lohman's case, it appears the beneficiary may have already used the majority of the funds in a manner consistent with the way Retained Asset Accounts were designed to be used, and the "denial" could very well have been an error on the beneficiary's part. The beneficiary was never really denied her money, though Bloomberg makes it seem as though the insurance company withheld the SGLI funds that were due her and somehow profited from this denial of funds at the beneficiary's expense.

3. Retained Asset Accounts Not FDIC Insured

As Bloomberg notes in the article, *Fallen Soldiers' Families Denied Cash as Insurers Profit*, Retained Asset Accounts are not FDIC insured. The article goes on to claim that the company intentionally deceived policyholders about the lack of FDIC insurance, and then also suggests that the lack of the insurance could cause a bank run (Evans, 2010a).

This lack of disclosure is unconscionable,” says Harvey Goldschmid, a commissioner of the U.S. Securities and Exchange Commission from 2002 to 2005. “I can’t imagine why bank regulators haven’t been requiring a prominent ‘no FDIC insurance’ disclosure,” says Goldschmid, who’s now a law professor at Columbia University in New York. “This system works very badly for the bereaved. It takes unfair advantage of people at their time of weakness (Evans, 2010a).

In the article “How Prudential Cut a Deal With the VA,” published on September 14, 2010, David Evans writes, “Funds in the Alliance Account are direct obligations of The Prudential Insurance Company of America and are not insured by the Federal Deposit Insurance Corporation” (Evans, 2010c). This is true: the Alliance Accounts are not FDIC insured. However, Prudential has always disclosed this information in survivor benefit packets that beneficiaries receive, albeit in fine print, which Evans admits later in the article. Although, The Department of Veterans Affairs Life Insurance Handbook published in 2002 and Revised in 2009 (USDVA, 2009c), *does not* mention that Alliance Accounts are *not* FDIC-insured (See Appendix E). In February 2011 the VA published an updated version of the SGLI Handbook specifically spelling out in bold letters that the Prudential Alliance Accounts are NOT FDIC insured (See Appendix F).

The Bloomberg article goes on to quote Lawrence Baxter, a professor at Duke University of Law, who says: “There’s more than \$25 billion out there in these accounts,” Baxter says. “A run could be triggered immediately by one insurance company not being able to honor its payout. The whole point of creating the FDIC was to put an end to bank runs” (Evans, 2010c). Baxter is referring to the run on banks during the Great Depression of 1929-33 but fails to mention that there are several layers of protection against such events from reoccurring. Specifically, the article never states that the Retained Asset Accounts are insured by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) (See Figure 6). This non-profit guaranty program operates in all 50 states, Washington, D.C., Puerto Rico and the Virgin Islands. It was designed to pay claims in the event of insolvency of an insurance company, and has covered all of its claims since its creation. Such claims have totaled more than \$5 billion (NOLHGA, 2011a). Guaranty funds are limited to the lesser of the amount of coverage provided by the policy or the state-specific cap (commonly \$300,000), so in the

event of a catastrophic failure of Prudential, beneficiaries would still receive the bulk of their benefits (NOLHGA, 2011b). Insurance companies are prohibited by law in most states from advertising the existence of the guaranty association system as an inducement to buy insurance, which is probably why they are not more widely known. These state guaranty associations do not have the same security as if covered by the FDIC; however, they do add another layer of protection for the accounts.

<p style="text-align: center;"><u>National Organization of Life & Health Insurance Guaranty Associations</u> <u>(NOLHGA) Facts & Figures</u></p> <p>The National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) is a voluntary association composed of the life and health insurance guaranty associations of all 50 states, the District of Columbia, and Puerto Rico.</p> <p>When an insolvency involves multiple states, NOLHGA assists its state guaranty association members in quickly and cost-effectively fulfilling their statutory obligations to policyholders.</p> <p>Since NOLHGA was created in 1983, state guaranty associations have:</p> <ul style="list-style-type: none">• Provided protection to more than 2.6 million policyholders in more than 100 multi-state insolvencies• Guaranteed more than \$24.5 billion in coverage benefits• Contributed \$5.3 billion to ensure that policyholders received their benefits <p>Source: http://www.nolhga.com/factsandfigures/main.cfm</p>

Figure 2. NOLGHA Facts and Figures

In the very first article, published on July 28, 2010, Bloomberg failed to mention that there were two levels of protection for Retained Asset Accounts. The first is the financial strength of the insurance company; the second is the earlier-noted guaranty funds. Bloomberg thus might lead readers to believe that the beneficiary's money in Alliance Accounts is at significant risk. The only statement Bloomberg made about the protection of Alliance Accounts was that such accounts are not backed by the FDIC. But the state guaranty programs provide a significant amount of protection for these accounts.

As discussed previously, however, the full amount of the beneficiaries' money is available to do with whatever they wish. This includes transferring it to a different institution. If beneficiaries want their money FDIC insured, they can move their money to an account that is backed by the FDIC.

4. Legal

a. Is It Legal to Use Retained Asset Accounts (RAA)?

In the original July 28, 2010, Bloomberg article, Evans writes, "Absent regulatory or legal intervention, bereaved family members like Cindy Lohman will continue to find death benefits going into retained-asset accounts. Her son, Ryan, posthumously received a Purple Heart and Bronze Star Medal for sacrificing his life to save fellow soldiers in Afghanistan in August 2008" (Evans, 2010a).

Here Evans essentially states that without regulatory or legal action against Prudential and for that matter, all insurance companies who use RAA's, death benefits would continue to be placed in these accounts. He seems to be suggesting that legal action should be taken to correct the use of Retained Asset Accounts. Evans does not talk about the fact that RAAs have been around for 20 plus years, or the fact that Ms. Lohman had the choice of receiving a Lump Sum check, the Alliance Account or the Installment Method of payment.

The following paragraphs discuss the legality of RAAs as well as the 1999 contract change and how according to Bloomberg's reporting, Prudential is acting like a bank. First, Evans claims Prudential may be violating banking law. Then, he paraphrases George Washington University Law Professor Arthur Wilmarth:

If a prosecutor pressed an insurance company, retained-asset accounts could be outlawed because insurers say they deposit money into these accounts and don't have bank charters or banking regulation, Wilmarth says. MetLife also offers its own version of certificates of deposit. "If it swims, quacks and flies like a duck, the court could decide that it is indeed a duck," he says. "You then potentially could have a criminal violation" (Evans, 2010a).

Evans believes that the VA and Prudential have set-up a sweetheart deal in which Prudential is making lots of money off the death of servicemembers. In his September 14, 2010 article titled “How Prudential Cut a Deal with the VA,” he claims that officials within the VA and Prudential violated the terms of the contract when they agreed to set up the Alliance Account option in 1999. In Evans’ opening sentence to this article he states, “The agency secretly amended the insurer’s contract, allowing it to withhold payments to survivors of fallen soldiers” (Evans, 2010c).

Although Evans claims that “[VA] secretly amended the insurer's contract, allowing it to withhold payments to survivors of fallen soldiers," in fact, no secret deal was made. The insurance policy was amended by mutual agreement between the Department of Veterans Affairs and Prudential officials in 1998 and the change had been used since, until the official written change effective September 1, 2009 (See Appendix G) and signed by VA and Prudential officials on Sept 24, 2009 (Prudential Insurance Company of America, 2009). The Department of Veterans Affairs authorized a change that permitted Prudential to establish retained-asset accounts, called Alliance Accounts, and this was reported to the SGLI Advisory Council in 1998 and in 1999. The Advisory Council at the time was made up of the Secretaries of the Treasury, Defense, Commerce, Health and Human Services, and Transportation and the Director, Office of Management and Budget. Since then the Secretary of Transportation has been replaced by the Secretary of Homeland Security. VA officials who oversee the insurance program are the Secretary of Veterans Affairs; the Undersecretary of Veterans Affairs for Benefits; Director, VA Regional Office and Insurance Center, Philadelphia, PA; and Chief, Actuarial Staff, VA Regional Office and Insurance Center, Philadelphia, PA. A copy of the 1998 (Thursday, December 17, 1998) and 1999 (Thursday, December 9, 1999) minutes of the SGLI Advisory Council Meeting that took place was requested through our research using a Freedom of Information Act Request (FOIA) (USDVA, 1998,1999). This FOIA request was received verifying that indeed these meetings took place and listed the Advisory Council, VA staff, Prudential representatives as well as several representatives from both the House Veterans Affairs Subcommittee and Senate and Senate Veterans Affairs Committee.

The change was also described as an initiative in the Fiscal Year (FY) 2000 President's Budget, submitted to Congress by the VA in February 1999 (Congressional Budget Submission, Page 2-200-2-201, 2000). Furthermore, it was also reported as a highlight of progress to date in the FY 2001 President's Budget, submitted to Congress in February 2000 (Congressional Budget Submission, Page 2F-4, 2001).

Then on September 25, 2003, VA Insurance Director, Thomas M. Lastowka included a description of the Alliance Account in his testimony before the Subcommittee on Benefits of the House Committee on Veterans' Affairs. During his testimony he stated the following regarding Alliance Accounts:

In June 1999, SGLI and VGLI beneficiaries began receiving their proceeds through a checking account rather than by the traditional single check for the full amount of the insurance proceeds. This checking account is called an 'Alliance Account.' The beneficiary receives a checkbook for an interest bearing account from which the beneficiary can write a check for any amount of \$250 or more, up to the full amount of the proceeds. Alliance Accounts earn interest at a competitive rate, are guaranteed by Prudential Insurance Company of America, and, most importantly, give the beneficiary time to make financial decisions while his or her funds are secure, earning interest, and providing immediate access to money at all times (USDVA, 2003).

The Alliance Account information is also provided in the SGLI/VGLI Handbook (See Appendix G), which explains all VA Insurance programs mission, vision, and goals (USDVA, 2009c). It gives program information and program descriptions as well as how the programs are administered and gives policy provisions and points of contact within the VA Insurance Department. It has also been part of the training for military casualty officers, who explain it to the beneficiaries when making the notification to the deceased servicemembers' beneficiaries.

In the Open Letter to the Military Community from Prudential Financial dated September 23, 2010, Prudential says, "Consumer advocates and the courts have recognized our Alliance Account as a fair way to settle claims for beneficiaries" (Jowers, 2010). Prudential is conveying that the use is accepted and therefore implying that the use is legal.

The issue of Retained Asset Accounts has sparked several lawsuits including one by plaintiffs Kevin and Joyce Lucey whose son Kevin served in Iraq and committed suicide in 2004. In *Lucey v. Prudential*, 10-30163, U.S. District Court, District of Massachusetts (Springfield), the plaintiffs seek the difference between the profit that Prudential made on these accounts and what they paid to the beneficiaries, claiming that *all* the profits made on these accounts belongs to beneficiaries, not Prudential (*Kevin and Joyce Lucey and Tracy Lynn Reece Eiswert v. Prudential Insurance Company of America*, 2010). Again, *Garcia v. Prudential* made these same charges. Garcia argued that the reason Prudential delayed paying her life insurance benefits was so that the company could invest the benefits and make a profit from those investments. However on that point the judge ruled that unless the contract states otherwise, there is “no duty to segregate (a beneficiary’s) funds from an institution’s general assets” (*Kathryn Garcia v. The Prudential Life Insurance Company of America*, 2009).

The American Legion states that Retained Asset Accounts are “unlawful and dishonest.” In a request to file a legal brief in support of the case *Lucey v. Prudential*, the largest American veterans advocacy group with over 2.5 million members, stated in its court filing that, “It is especially objectionable because sophisticated money managers are making an unwarranted and unlawful profit from the deaths of those who have given the most to preserve our nation’s way of life.” (Evans, 2010) The reason the American Legion claims the use of Retained Asset Accounts is unlawful is because they believe it violates the contract that the beneficiary needs to be paid as originally requested by the policyholder in the form of a lump sum or 36 installments. The American Legion also believes that Prudential strongly encourages beneficiaries to keep the funds in its Alliance Accounts, paying them a small amount of interest (Evans, 2010).

Prudential’s letter to the military community also stated, “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” (Prudential Letter, 2010). Prudential also argues that on September 10, 2010, MetLife won a victory

when a federal judge in Nevada threw out a lawsuit against it alleging that MetLife “misled beneficiaries over the use of such an account” (Rosenblatt, 2010). In December 2009, the Honorable Joseph Greenaway Jr., in federal court in Newark, New Jersey, asked a plaintiff’s lawyer, “What am I missing here? Your client has the ability to get all of her money from day one.” Judge Greenaway dismissed the case (Prudential Letter, 2010).

According to the American Council of Life Insurers (ACLI)

Retained Asset Accounts have existed since 1982. They were developed in response to requests from policyholders who wanted their life insurer to provide a service that would allow them to delay major financial decisions during an emotional and vulnerable time. Today, many insurers provide beneficiaries with this service for both group and individual life insurance policies. According to the National Association of Insurance Commissioners, there have been few if any complaints with regard to these accounts (See Appendix H) (American Council of Life Insurers, 2011).

Jane L. Cline, the National Association of Insurance Commissioners (NAIC) President and also the state of West Virginia Insurance Commissioner, issued the following response with respect to Retained Asset Accounts:

Retained Asset Accounts (RAAs) are life insurance claims settlement mechanisms that have been available to consumers for at least two decades. The accounts were initially created at the request of consumers to provide options for receiving benefits from a life insurance policy, and with proper disclosure, consumers have generally been happy with this flexibility. Traditionally, consumers earn interest under these accounts, allowing their benefit to grow without the need to make impulsive decisions about how to manage the benefit (See Appendix I) (National Association of Insurance Commissioners, 2010).

As noted, Retained Asset Accounts have been in use for several decades (ACLI, 2010). Currently, no federal or state attorney general has taken any insurance company to court to challenge it on this issue, though then Attorney General Andrew Cuomo of New York issued a fraud investigation two days after the original Bloomberg

article was published into Prudential's practices (New York State Attorney General, 2010). State insurance commissioners in New Jersey and Pennsylvania have opened investigations into Bloomberg's allegations, though no charges have been filed to date. (Evans, 2010h).

b. Was the Contract Change Legal?

In 1999, the Department of Veterans Affairs (policyholder) and Prudential made a verbal agreement to change the SGLI program from issuing single checks to beneficiaries to a new method using the Retained Asset Account model. Prudential's RAA method is called the Alliance Account. The article quotes many experts in insurance and law and one insurance lawyer Brendan Bridgeland, who runs the non-profit Center for Insurance Research in Cambridge, Massachusetts states:

“For a decade, until the contract was formally changed, Prudential wasn't fulfilling its obligations to survivors of fallen service members.” Bridgeland, who is also retained by the National Association of Insurance Commissioners (NAIC) to represent consumers, continues by saying, “It's very clear they violated the original terms of the contract” (Evans, 2010c).

David Evans further states that the VA violated its original 1965 contract that states that any changes to the SGLI program must be made in writing. He further states that when the VA and Prudential agreed to stop issuing checks to beneficiaries and started issuing Alliance Accounts, it was done so via a verbal agreement between the VA and Prudential officials.

Dennis Foley, a VA attorney says, “The 1999 changes to the 1965 contract were valid, even if they weren't in writing, because they were made by mutual agreement by people empowered to make such decisions” (Evans, 2010c). The verbal agreement was announced on September 25, 2003, where the VA Director of Insurance Thomas Lastowka stated before the U.S. House Committee on Veterans' Affairs Subcommittee on Benefits:

Alliance Accounts

In June 1999, SGLI and VGLI beneficiaries began receiving their proceeds through a checking account rather than by the traditional single check for the full amount of the insurance proceeds. This checking account is called an "Alliance Account." The beneficiary receives a checkbook for an interest bearing account from which the beneficiary can write a check for any amount of \$250 or more, up to the full amount of the proceeds. Alliance Accounts earn interest at a competitive rate, are guaranteed by Prudential Insurance Company of America, and, most importantly, give the beneficiary time to make financial decisions while his or her funds are secure, earning interest, and providing immediate access to money at all times (See Appendix J for an Alliance Account Statement) (USDVA, 2003).

The original contract (See Appendix K) that Prudential and the VA signed in 1965 states under *Section 19, The Contract*: "No change in the Group Policy shall be valid unless evidenced by an amendment thereto signed by the Policyholder (VA) and by the President, a Vice President, the Secretary, the Actuary, Associate Actuary, and Assistant Secretary or an Assistant Actuary of the Insurance Company." (Parentheses added) (Prudential, 1965) These modifications were agreed to by both the VA and Prudential officials at the time of the changes in 1999, but not placed in writing until 2009. It is unclear what the legal ramifications of this verbal agreement may be, but it seems to have violated the principle of the original contract. However, the VA and Prudential agreed to and authorized the changes made to the contract, and, according to the authors on *Administration of Government Contracts Third Edition*, John Cibinic, Jr. and Ralph C. Nash, Jr., "All changes need not be in writing. Federal procurement law widely recognizes 'constructive' changes whereby the parties' effect a change to a contract but do not follow the procedures of the Changes clause of the contract, such as recording the change in writing." Also according to the authors, "A constructive change occurs when the contract work is actually changed but the procedures of the 'Change' clause have not been followed" (Cibinic & Nash, Administration, 1995).

Bloomberg seems to imply that the verbal rather than written change was unethical or devious. This is done cleverly with quotes of the opinions of various people who do not know all the facts. One article by Bloomberg, for example, states the following:

‘Every veteran I’ve spoken with is appalled at the brazen war profiteering by Prudential,’ says Paul Sullivan, who served in the 1991 Gulf War as an Army cavalry scout and is now executive director of Veterans for Common Sense, a nonprofit advocacy group based in Washington (Evans, 2010c).

This quote implies without any evidence that Prudential is war profiteering, and the Bloomberg article continues with another quote by Sullivan: “Now vets are upset at the VA’s inability to stop Prudential’s bad behavior.” This quote implies that the VA was unable to stop Prudential’s action when, in fact, the VA was quoted as acknowledging, in the same July, 28, 2010, article, that it knew and agreed to the change (Prudential, 1965). At other times, the author uses what seem to be “expert” opinions by listing their experience and titles to add legitimacy to their quoted opinion, thus making the reader believe what they are saying to be valid.

c. Is It Legal to Act Like a Bank?

In the very first Bloomberg article dated July 28, 2010, David Evans specifically states after interviewing Cindy Lohman about the death of her son Ryan, “Inside was a letter from Prudential about Ryan’s \$400,000 policy. And there was something else, which looked like a checkbook. The letter told Lohman that the full amount of her payout would be placed in a convenient interest-bearing account, allowing her time to decide how to use the benefit” (Evans, 2010a).

In this quote is the term “checkbook,” and “interest-bearing account,” another term for Retained Asset Account (RAA) or what Prudential calls its Alliance Account. This is where the complexity of the issue arises.

In this section of his article titled “Federal Bank Law,” Evans states his claim that Prudential may be violating federal bank law and goes on to quote law

professor Wilmarth from George Washington University School of Law, who has also testified regarding banking regulations before Congress. Wilmarth states that only banks and/or credit unions can accept deposits. Evans paraphrases Professor Wilmarth by saying, “If a prosecutor pressed an insurance company, retained- asset accounts could be outlawed because insurers say they deposit money into these accounts and don’t have bank charters or banking regulation” (Evans, 2010a).

In determining whether it is legal for an insurer to act like a bank concerning how a bank invests money, we see two perspectives. The first perspective is that when the beneficiary is due benefits, it is no longer the insurers’ money; therefore, the money is now considered a deposit. In this sense, the Alliance account is performing both aspects of accepting the deposit and acting as a deposit account in which the account holder can withdraw the money and write checks on the account. In this sense, Prudential could be considered as acting as a bank, and therefore the accounts would be illegal. However, because of a lack of court precedent in the use of Retained Asset Accounts, as well as the limitations of our research, determining whether an insurance company’s use of alliance accounts is legal or not is impossible.

The second perspective raises the question of whether an insurance company can invest the beneficiaries’ money. To answer that question, we first have to determine whether the beneficiary has received the policy payout or if it is withheld by the insurer. The Bloomberg articles imply a payout is only when the cash is in the hands of the beneficiary; however, according to Prudential, it is when the beneficiary has received full control and access of the money. According to a website provided as a public service by Advocate Law Group P.C., “The concept behind Retained Asset Account was based upon extensive research and dozens of research sessions conducted nationwide with hundreds of beneficiaries, policyholders, lawyers, bankers, employee benefits managers, insurance agents and grief counselors (including physicians, psychologists, clergy, social workers and funeral home directors)” (Retainedassetaccounts.com, 2011). Thousands of widows and widowers were surveyed to determine their needs and wants. The first Retained Asset Account was launched in 1984 under the name MetLife, trademarked: the "Total Control Account." Retained

Asset Accounts quickly won the approval of “major labor unions (such as the UAW), large employers in the corporate sector (such as GM, IBM and Alcoa) and the government sector (such as the U.S. Office of Personnel and Management and the New York State Civil Service Commission) and the financial media” (Retainedassetaccounts.com, 2011). Although this does not determine whether Retained Asset Accounts are legal, it does convey that they are accepted by civil and government agencies.

A Depression-era banking law, the Banking Act of 1933 (P.L.73-66,48STAT.162, also known as the Glass-Steagall Act) established the FDIC as a temporary agency, later to become a permanent corporation (Federal Deposit Insurance Corporation or agency) with the Banking Act of 1935. It also separated commercial banking from investment banking and established them as separate lines of commerce (FDIC, 2010b). This statute was created to minimize financial speculation and to instill consumer faith in our banking system. The reason why there is debate whether Prudential is acting like a bank is because Prudential is “not” accepting deposits from beneficiaries; they have modified how the beneficiary receives their money. From the perspective of bank operations, Prudential is mimicking the investing and financial security aspect of a bank but is not providing any other bank services. Prudential uses Open Solutions as a “service provider” (a clearing house) as well as J.P. Morgan Chase as the “check clearing” institution. Both companies provide Prudential with services that seem like banking functions (or financial management aspects) of its Alliance Accounts (Retained Asset Accounts). The following is quoted from an Alliance Account kit (See Appendix D):

Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

Prudential, Prudential Financial, the Rock Logo, and the Rock Prudential Logo are registered service marks of The Prudential Insurance Company of America, Newark, NJ and its affiliates.

Ed. 03/2008 [Source: (Appendix D, Alliance Account Kit, March 2008)]

C. WELFARE AND THE PARETO EFFICIENCY OF ALLIANCE ACCOUNTS

1. Interest Rates Paid on RAAs Vs. Interest Rates on Alternative Financial Products

In analyzing whether beneficiaries have gained from the use of RAAs, we compared the interest earned on RAAs to both the interest earned before their use, and then also compared it to competing products. Since the checks that were sent to beneficiaries before the use of RAAs didn't earn interest, the beneficiaries unequivocally gain from the use of RAAs. If, using the rates quoted in the original Evans article, the RAAs are compared to FDIC insured money market accounts, they don't earn as much interest as those accounts do, on average. However, if they are compared to a more analogous money market mutual fund, the beneficiary tends to earn a higher interest rate and is therefore better off.

Since Prudential is earning interest on the Retained Asset Account where it would otherwise not be, they are also better off as a company. Since both parties are better off from the use of RAAs, then it was a Pareto efficient event.

2. Check Vs. Checkbook

In the change from "check to check book", the beneficiary is better off because he is earning interest on money in the Retained Asset Account from day one whereas in the form of a check, he would not. Also, the beneficiary is able to use the "check book" right away whereas in the form of a check, the beneficiary would need to deposit it first.

Although Prudential gains from the use of the Retained Asset Account, it is not better or worse off from the change from "check to check book"

3. FDIC Vs. State Guaranty Funds

If the beneficiary normally uses an FDIC insured institution (and many credit unions are not FDIC insured), then in this aspect he is not better off by the switch to Retained Asset Accounts because although the Retained Asset Account is backed by Prudential and insured with state guaranty funds, it is not as secure as deposits backed by the FDIC. However, the beneficiary can easily transfer his funds from the Retained Asset Account to his personal, FDIC insured, bank account.

When Prudential and the VA changed to the use of Retained Asset Accounts, Prudential did not change the method of insuring its general corporate account (including Retained Asset Accounts). Therefore, Prudential is not better or worse off.

THIS PAGE INTENTIONALLY LEFT BLANK

IV. CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

1. Pareto Efficiency Favors Alliance Accounts

When looking at the advantages and disadvantages from the perspective of both the beneficiaries and Prudential, we found that both parties gain from the use of Retained Asset Accounts. The beneficiaries gain from the Retained Asset Accounts because in the time that it would take for the funds to be deposited in to their personal checking account that money is gaining tax free interest comparable to that of a savings account, whereas if it was in the form of a ‘lump sum’ check, it would have only its “face value.” Prudential also gains from the use of Retained Asset Accounts because it earns a higher interest rate on the funds until the money is completely withdrawn. Economic value is created for both parties. If the beneficiary would rather have FDIC insurance, then he can transfer the funds to an FDIC insured bank account.

2. The Use of Sensational Journalism

The author of the Bloomberg articles used quotes and headlines that were not objective, bordered on slander, and, in some cases, were false. These Bloomberg articles mislead the reader about the purpose of life insurance. Life insurance companies are easy targets for critics because they provide a service for policyholders in the event of an untimely death and the Bloomberg articles are proof of that. However, in general people who want life insurance choose the company and pay for the companies’ services. In the case of SGLI, the Department of Veterans Affairs chose Prudential for all DoD servicemembers. Life insurance companies like Prudential provide a service to people seeking life insurance, including Servicemembers, not because it’s an easy or hard service to provide, but because it’s an important service that people have sought for decades. They do so to compensate people for their loss and in doing so must maintain a profit in their endeavor to stay solvent and in the best interest of the company and

shareholders. Failure to earn a profit could ultimately cause the company, its employees, shareholders and ultimately beneficiaries of these policies to not see any monies from anyone's perspective due to the company failing and going into bankruptcy, to the detriment of all parties.

3. Poor Disclosure from Prudential and the VA

When Prudential made the transition to Retained Asset Accounts, very little was done to notify policyholders and beneficiaries about these accounts. In our research, we were able to find only one public announcement and one news article from that time period that discussed the change. By not making sure policyholders were aware of the changes to the payment of benefits, Prudential withheld information that policyholders might have wanted in order to decide whether they wanted to continue with the life insurance options they had initially chosen. Policyholders might have wanted to change their policy in light of the switch to RAAs. Prudential and the VA both should have been more forthcoming about the benefits and drawbacks of these accounts, such as competitive interest rates paid to the beneficiary, the lack of FDIC insurance and how each states insurance guaranty compared to the FDIC.

B. RECOMMENDATIONS

1. Bloomberg News

Bloomberg News journalist David Evans was nominated for a Pulitzer Prize in National Reporting, "for his revelations of how life insurance companies retained death benefits owed to families of military veterans and other Americans, leading to government investigations and remedial changes" (Columbia University News, 2011). Although Bloomberg News did bring to light a poorly understood issue and the publicity resulted in changes to the way Prudential manages the SGLI enrollment form as well as more open disclosure on VA and Prudential forms, documents and publications, Bloomberg should not have distorted the truth, and should have maintained objectivity in its reporting.

2. Prudential—Documentation and Disclosure

Many issues with the Alliance Accounts could have been avoided if, as soon as Prudential and the VA agreed on the Alliance Account changes, they had done so formally in writing. After that, the VA and/or Prudential should have clarified to policyholders how the changes would affect them and the options the policyholder has. Prudential's new application forms make more clear what options for payment the policyholder has.

When changes affect the policyholder and beneficiaries, disclosure of the changes needs to be made to all those affected. In particular, Prudential should have disclosed that the Alliance Accounts are not FDIC insured in big bold letters and not in fine print as Prudential and the VA did for over a decade. Also, Prudential should have explained in the application form that the Alliance Account or Retained Asset Accounts are insured by each State's Guaranty Fund and what that means to the policyholders/beneficiaries.

Appendix L (Old SGLV 8283 – July 1994) and Appendix M (New SGLV 8283 – January 2011) show changes the Department of Veterans Affairs and Prudential made with the Claim for Death Benefits form (SGLV 8283), since the original Bloomberg article was written on July 28, 2010. The changes that occurred are very much improved and provide more open disclosure regarding the Alliance Accounts and provide better information for the policyholder and the beneficiary to make an informed decision with regards to his or her SGLI policy and payout.

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF REFERENCES

- American Council of Life Insurers. (2011). About Retained Asset Accounts. Retrieved April 14, 2011, from:
<http://www.acli.com/Newsroom/Documents/80af916fc317435cb9340a17bdbaf052AboutRetainedAssetAccounts.pdf>
- Bankrate.com. (2011). Checking Account, Graph rate Trends. Retrieved April 2011, from
<http://www.bankrate.com/funnel/graph/Default.aspx?cat=3&ids=22,-1&state=zz&d=1095&t=MSColumn2D&eco=-1>
- Baucus, Max. (2010). *Baucus Opens Investigation Into Prudential Survivor Benefit Accounts*. Committee On Finance News Release. Retrieved from
<http://finance.senate.gov/newsroom/chairman/release/?id=449114ca-10ec-4749-bbb2-60cde4a6712d>
- Bloomberg Markets Magazine. (2010, August 11). U.S. Congressional panel investigates veterans' life insurance. *Bloomberg.com*. Retrieved from
<http://www.bloomberg.com/apps/news?pid=conewsstory&tkr=PRU:US&sid=aM3g0UEHivHQ>
- Bloomberg News. (2010, July 28). Death-benefit accounts seem to slight survivors. *The New York Times*. Retrieved from
<http://www.nytimes.com/2010/07/29/business/29insure.html>
- Capaccio, T. (2010, August 8). Veterans Affairs assures families of fallen soldiers their money `secure'. *Bloomberg.com*. Retrieved from
<http://www.bloomberg.com/news/print/2010-08-07/veterans-affairs-assures-families-of-fallen-soldiers-their-money-secure-.html>
- Capaccio, T., & Evans, D. (2010, July 29). Duping the families of fallen soldiers. *Bloomberg.com*. Retrieved from
<http://www.bloomberg.com/news/print/2010-07-28/soldier-death-payout-practices-of-insurers-to-be-probed-by-veterans-agency.html>
- Cibinic, Jr., John, & Nash, Jr., Ralph C. (1995). *Administration of Government Contracts Third Edition*. Washington, D.C. George Washington University.
- Cline, J. L. (2010, July 29). NAIC President Jane L. Cline Releases Statement Regarding Retained Asset Accounts Washington, D.C. Retrieved from
http://www.naic.org/Releases/2010_docs/raa_statement.htm

- Columbia University News. (2011, April 18). Columbia University Announces 95th Annual Pulitzer Prizes in Journalism, Letters, Drama and Music. Columbia University News. Office of Communications and Public Affairs. New York, NY. Retrieved from <http://www.pulitzer.org/files/2011longlist.pdf>
- Committee on Financial News. (23 Sep. 2010). Baucus opens investigation into Prudential survivor benefit accounts. Committee On Finance News Release. Retrieved from <http://finance.senate.gov/newsroom/chairman/release/?id=449114ca-10ec-4749-bbb2-60cde4a6712d>
- Congressional Budget Office. (2000). Congressional Budget Submission 2000, Insurance Program. Page 2-200-2-201. Washington, D.C.: U.S. Government Printing Office.
- Congressional Budget Office. (2001). Congressional Budget Submission 2001, Insurance Program. Page 2F-4. Washington, D.C.: U.S. Government Printing Office.
- Congressional Research Service. (2010). Veterans' benefits: Current life insurance programs: A CRS Report for Congress (CRS Publication No. R41435). Washington, DC. Retrieved from http://assets.opencrs.com/rpts/R41435_20101018.pdf
- DoD announces increase in death gratuity, SGLI. (2005, Nov). *All Hands*. Retrieved from <http://www.navy.mil/media/allhands/acrobat/ah200511.pdf>
- Evans, D. (2010, July 28). Fallen soldiers' families denied cash as insurers profit. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-07-28/fallen-soldiers-families-denied-cash-payout-as-life-insurers-boost-profit.html>
- Evans, D. (2010, August 1). Insurers hold billions in federal death benefits in unprotected accounts. *The Washington Post*. Retrieved from <http://www.washingtonpost.com/wp-dyn/content/article/2010/07/31/AR2010073100035.html>
- Evans, D. (2010, September 13). How Prudential cut a deal with the VA. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/apps/news?pid=21070001&sid=aU.NO.xNud4o>

- Evans, D. (2010, September 14). Veterans agency made secret deal over benefits. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/2010-09-14/veterans-agency-arranged-secret-deal-with-prudential-over-soldier-benefits.html>
- Evans, D. (2010, September 30). Prudential profits from slain soldiers with help from taxpayers. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-09-30/prudential-profits-from-slain-soldiers-with-help-from-taxpayers.html>
- Evans, D. (2010, September 30). Taxpayer-funded profits. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-09-30/taxpayer-funded-profits.html>
- Evans, D., & Frye, A. (2010, July 29). Gates says Pentagon to help death-benefits inquiry. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-07-29/cuomo-probes-insurers-secret-profits-on-death-benefits-of-u-s-soldiers.html>
- Evans, D., & Frye, A. (2010, July 29). New York to probe legality of benefit retention by insurers. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-07-28/new-york-to-probe-legality-of-troubling-benefit-retention-by-insurers.html>
- Evans, D., & Frye, A. (2010, July 30). Cuomo said to subpoena Genworth, Unum as insurer probe widens. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-07-29/cuomo-said-to-subpoena-genworth-unum-as-life-insurer-fraud-probe-widens.html>
- Evans, D., & Frye, A. (2010, September 23). Prudential chief pressed by Senator Baucus on death benefits. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-09-23/prudential-chief-pressed-by-senator-baucus-on-death-benefits.html>
- Evans, D., Frye, A., & Leondis, A. (2010, August 3). Regulators call for better oversight of insurers' retained-asset accounts. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-08-03/regulators-call-for-better-oversight-of-insurers-retained-asset-accounts.html>
- Evans, D., & Glovin, D. (2010, November 2). Prudential veteran accounts 'dishonest,' American Legion says. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-11-01/prudential-life-insurance-accounts-unlawful-american-legion-tells-court.html>

- Evans, D., & Plungis, J. (2010, September 14). Veterans agency changes terms for Prudential claims. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-09-14/u-s-veterans-agency-says-prudential-to-send-beneficiaries-lump-sum-checks.html>
- Federal Deposit Insurance Corporation. (2010, August 11). Retained Asset Accounts and FDIC deposit insurance coverage (FDIC), Financial Institution Letter FIL-48-2010. Washington, DC: Author. Retrieved from <http://www.fdic.gov/news/news/financial/2010/fil10048.pdf>
- Federal Deposit Insurance Corporation. (2007, May 15). Important Banking Legislation. Washington, DC: Author. Retrieved from <http://www.fdic.gov/regulations/laws/important/index.html>
- Frye, A. (2010, July 30). MetLife says clients love accounts probed by Cuomo. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-07-30/metlife-clients-love-insurance-accounts-probed-by-cuomo-henrikson-says.html>
- Frye, A. (2010, August 12). FDIC reviews insurers' retained death benefits. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/2010-08-12/fdic-probes-life-insurers-retained-asset-accounts-has-serious-concerns.html>
- Glovin, D. (2010, September 28). MetLife probed as asset accounts called deceptive. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-09-28/metlife-a-focus-of-regulator-probes-as-judge-calls-asset-account-deceptive.html>
- GPO Access, Electronic Code of Federal Regulations (e-CFR). (2010). *Title 38: Pensions, Bonuses, and Veterans' Relief, Part 9 - Servicemembers' Group Life Insurance and Veterans' Group Life Insurance*. Retrieved from <http://ecfr.gpoaccess.gov/cgi/t/text/text-dx?c=ecfr&rgn=div5&view=text&node=38:1.0.1.1.11&idno=38#38:1.0.1.1.11.0.145.12>
- Jordan, B. (2010, Aug 26). Congress probes Prudential's SGLI payouts. *Military.com*. Retrieved from <http://www.military.com/news/article/congress-probes-prudentials-sgli-payouts.html>

- Jowers, K. (2010, Sep 24). Prudential letter responds to SGLI controversy. *Navy Times*. Retrieved from <http://www.navytimes.com/news/2010/09/military-prudential-sgli-letter-092410w/>
- Kathryn Garcia v. The Prudential Life Insurance Company of America, Civil Action No. 08-5756 (JAG) (U.S. District Court for the District of New Jersey 2009).
- Kevin and Joyce Lucey and Tracy Lynn Reece Eiswert v. Prudential Insurance Company of America, Class Action Complaint (U.S. District Court for the District of Massachusetts Western Division 2010).
- Lastowka, Thomas M. (2003, September 25). Statement of Thomas Lastowka, Director, Philadelphia VA Regional Office and Insurance Center, Department of Veterans Affairs before the House Committee on Veterans' Affairs Subcommittee on Benefits. Retrieved from <http://www4.va.gov/OCA/testimony/hvac/030925TL.asp>
- Main, Carla. (2010, August 31). Prudential, Skilled Healthcare, CVS in court news. Bloomberg.com. Retrieved from <http://www.bloomberg.com/news/print/2010-08-31/prudential-roger-clemens-barclays-skilled-healthcare-cvs-in-court-news.html>
- Mehalic, J. V., (2010, July 30). Class action filed against Prudential over Retained-Asset Accounts. *West Virginia Business Litigation*. Retrieved from <http://www.wvbusinesslitigationblog.com/2010/07/articles/class-actions-1/class-action-filed-against-prudential-over-retainedasset-accounts/>
- Mehalic, J. V. (2010, September 11). Plaintiffs in class action expand allegations against Prudential. *West Virginia Business Litigation*. Retrieved from <http://www.wvbusinesslitigationblog.com/2010/09/articles/insurance/plaintiffs-in-class-action-expand-allegations-against-prudential/>
- National Organization of Life and Health Insurance Guaranty Associations. (2011a). Facts and Figures. NOLHGA.com. Retrieved from <http://www.nolhga.com/home.cfm>
- National Organization of Life and Health Insurance Guaranty Associations. (2011b). What Happens When an Insurance Company Fails. Retrieved from <http://www.nolhga.com/policyholderinfo/main.cfm/location/insolvencyprocess>
- New York State Attorney General's Office. (2010). Press Release: Attorney General Cuomo Launches Investigation of Life Insurance Industry for Defrauding Military Families and Others of Millions in Cash Payouts. Retrieved from http://www.ag.ny.gov/media_center/2010/july/july29a_10.html

- Prudential Insurance Company of America. (1965, December 30). Servicemen's Group Life Insurance, Group Life Insurance Policy (Group Policy No. G-32000). Washington, DC. The Prudential Insurance Company of America.
- Prudential Insurance Company of America. (2007, January 1). 2007 Amendment to Group Policy No. G-32000 (SGLI), Group Life Insurance Policy (Group Policy No. G-32000). Washington, DC. The Prudential Insurance Company of America.
- Prudential Insurance Company of America. (2009, September 1). 2009 Amendment to Group Policy (SGLI), Group Life Insurance Policy (Group Policy No. G-32000). Washington, DC. The Prudential Insurance Company of America.
- Prudential Insurance Company of America. (2010, September 23). An open letter to the military community. Retrieved from <http://news.prudential.com/images/20026/AnOpenLettertotheMilitaryCommunity.pdf>
- Quinn Bryant, J. (2010, August 30). Life Insurance Payouts: Are You Earning Enough on the Money? CBS MoneyWatch.com. Retrieved from <http://moneywatch.bnet.com/economic-news/blog/make-money/life-insurance-payouts-are-you-earning-enough-on-the-money/438/?tag=col1;blog-river>
- RetainedAssetAccounts.com. (2011). *Retained Asset Accounts*. Advocate Law Group, P.C. Retrieved from <http://www.retainedassetaccounts.com/>
- Rosenblatt, J. (2010, September 11). MetLife wins dismissal of beneficiary's lawsuit. Businessweek.com. Retrieved from <http://www.businessweek.com/news/2010-09-11/metlife-wins-dismissal-of-beneficiary-s-lawsuit.html>
- Roth, L. (2010, August 11). New Jersey Regulators OK Prudential's Life Insurance Payouts. Insurancerate.com. Retrieved from <http://www.insurancerate.com/new-jersey-regulators-ok-prudentials-life-insurance-payouts.php>
- Satter, M. Y. (2010, November, 1). Life Insurers Under Fire: Retained asset accounts have drawn criticism in the press; here's what you and your clients should know. AdvisorOne.com. Retrieved from <http://www.advisorone.com/article/life-insurers-under-fire?page=0,0>
- U.S. Department of Defense. (2010) Operation Enduring Freedom and Operation Iraqi Freedom: Casualty figures as of 10 Nov. 2010. Defense Data Manpower Center (DMDC). Retrieved from <http://siadapp.dmdc.osd.mil/personnel/CASUALTY/castop.htm>

- U.S. Department of Defense. (2008). *Servicemembers' Group Life Insurance (SGLI) Program*. (DoD Financial Management Regulation, Volume 7A, Chapter 47). Washington, DC: Author. Retrieved from http://comptroller.defense.gov/fmr/07a/07a_47.pdf
- U.S. Department of Veterans Affairs. (1998, December 17). Minutes of the SGLI Advisory Council Meeting Thursday, December 17, 1998. Philadelphia, PA. Department of Veterans Affairs.
- U.S. Department of Veterans Affairs. (1999, December 9). Minutes of the SGLI Advisory Council Meeting Thursday, December 9, 1999. Philadelphia, PA. Department of Veterans Affairs.
- U.S. Department of Veterans Affairs. (2009a). Form SGLV 8286, Servicemembers' Group Life Insurance Election and Certificate. Washington, DC: Author.
- U.S. Department of Veterans Affairs. (2009b). *Servicemembers' and Veterans' Group Life Insurance Program: Forty-Forth Annual Report Year Ending June 30, 2009*. Veterans Benefits Administration, Regional Office and Insurance Center, Philadelphia, PA: Author. Retrieved from <http://www.insurance.va.gov/sgliSite/miscellaneous/SGLI-Ann-Report-2009.pdf>
- U.S. Department of Veterans Affairs. (2009c). *Servicemembers' and Veterans' Group Life Insurance Handbook (H-29-98-1)*. Veterans Benefits Administration, Washington, DC: Author. Retrieved from <http://www.insurance.va.gov/sgliSite/handbook/handbook.pdf>
- U.S. Department of Veterans Affairs. (2010a). [no italics] *Servicemembers' Group Life Insurance*. Retrieved from <http://www.insurance.va.gov/sgliSite/default.htm>
- U.S. Department of Veterans Affairs. (2010b). History of Servicemembers' and Veterans' Group Life Insurance. Retrieved from <http://www.insurance.va.gov/Sglisite/generalinfo/InsHistory.htm>
- U.S. Department of Veterans Affairs. (2010c). [no italics] *Servicemembers' Group Life Insurance* premiums. Retrieved from <http://www.insurance.va.gov/sglisite/sgli/sglipremiums.htm>
- U.S. Department of Veterans Affairs. (2010d). *Servicemembers' and Veterans' Group Life Insurance Program: Forty-Fifth Annual Report Year Ending June 30, 2010*. Veterans Benefits Administration, Regional Office and Insurance Center, Philadelphia, PA. Received via Email from CDR Gregory Stump, USCG, Office of the Secretary of Defense.

U.S. Department of Veterans Affairs. (2010). Life insurance. Retrieved from <http://www.insurance.va.gov/miscellaneous/>

U.S. House of Representatives. (2010). Title 38 United States Code – Veterans’ Benefits; Part II – General Benefits; Chapter 19 – Insurance; Subchapter III – Servicemembers’ Group Life Insurance. Retrieved from <http://uscode.house.gov/download/pls/38C19.txt>

Van Voris, B. (2010, August 30). Prudential veterans-insurance suit adds fraud claims. *Bloomberg.com*. Retrieved from <http://www.bloomberg.com/news/print/2010-08-30/prudential-veterans-insurance-lawsuit-is-expanded-with-new-fraud-claims.html>

APPENDIX A. SGLV 8286, SERVICEMEMBERS' GROUP LIFE INSURANCE ELECTION AND CERTIFICATE, DECEMBER 2007

Directions To Personnel Clerks Of The Uniformed Services

1. Complete all appropriate items on this form. All entries except the signature and those requested to be in the service member's own handwriting, must be typed or printed in ink.
2. Include the name, address, and social security number (if available) of the beneficiary(ies), and the relationship of the beneficiary(ies) to the service member (e.g. father, sister).
3. If a service member wants to designate a beneficiary other than would be normal under his or her family circumstances, see "Unclear or Unusual Beneficiary Designations" (section 6.03) in the *Servicemembers' Group Life Insurance Handbook*, Handbook 29-75-1 (www.insurance.va.gov).
4. A representative of the Uniformed Services must sign his or her name below that of the service member to indicate that he/she received the form from the member (whether in person, by mail or electronically) and should include the date he/she received it.
5. This form, properly completed, is authority to a payroll office to initiate or change the deductions for insurance premiums if the amount of insurance is changed or cancelled.
6. If this form is being used to decline SGLI coverage, inform the service member that this action will mean that he/she will no longer have Family SGLI coverage - both spousal coverage and dependent child coverage - or Traumatic Injury Protection (TSGLI). Have the service member complete SGLV 8286A and take action to end payment of Family spousal premiums. No additional forms need to be completed to end payment of TSGLI premiums.
7. Inform the service member that if he/she is married or gets married after completing this form, his/her spouse is automatically covered under Family SGLI and premiums are due for this coverage and will be deducted from his/her pay if his/her spouse is registered in DEERS. If his/her spouse is not registered in DEERS, premiums cannot be deducted and the member will owe a debt for unpaid premiums.
8. Inform the service member that if he/she has questions about this form, he/she may obtain the advice of a military attorney at no expense to the service member.
9. **After the form is completed in its entirety**, you should:
 - File a copy of pages 2 and 4 in the member's official personnel file.
 - Provide a copy of pages 2-5 to the service member.
 - Provide a copy of pages 2 and 4 to the Active or Reserve component of the Uniformed Services.

Remember: If this form is used to decline SGLI coverage and the service member has Spousal Family SGLI coverage, you should take action to discontinue payment of spousal Family SGLI premiums.

Note: Please do *NOT* send any of the forms or copies to the Office of Servicemembers' Group Life Insurance or to the Department of Veterans Affairs.

Directions To Service Member

What You Should Know

This insurance is granted under the Servicemembers' Group Life Insurance provisions of title 38, United States Code, and is subject to the provisions of that title and its amendments, and title 38 Code of Federal Regulations.

This form must be correctly completed, signed and received by your Uniformed Service before your death in order for this designation to be valid.

Marriage and SGLI Coverage

If you are married or you get married after completing this form, **your spouse is automatically covered under Family SGLI** and premiums will be deducted from your pay, unless you decline Family SGLI coverage by completing SGLV 8286A. **You must register your spouse in DEERS for Family SGLI premiums to be deducted from your pay.** If you do not register your spouse in DEERS, premiums cannot be deducted. This will result you owing a debt for back premiums.

Periods of Coverage

SGLI is in effect throughout the period of full-time active duty or active duty for training. Coverage is also in effect on a full-time basis for reservists who are assigned to a unit or position in which they may be required to perform active duty or active duty for training and each year will be scheduled to perform at least 12 periods of inactive duty training that is creditable for retirement purposes under Chapter 1223 of title 10, United States Code. SGLI coverage continues for 120 days following separation or release. You may convert your SGLI to Veterans' Group Life Insurance within 120 days of separation without proof of good health, or within one year and 120 days of separation with proof of good health by contacting the Office of Servicemembers' Group Life Insurance (see below).

Instructions On Completing This Form (Type or print in ink all items except where otherwise noted.)

1. Naming Beneficiaries

- a. A new SGLV-8286 must be completed to change your beneficiary. You may name anyone as beneficiary without his/her consent. However, your spouse will be notified if you reduce coverage or name a beneficiary other than your spouse.
- b. If the beneficiary is a married woman, use her given first and middle names. For example, use Mary Lisa Smith, instead of Mrs. John Smith.
- c. A named beneficiary will **NOT** be changed automatically by any event occurring after you complete this form (e.g. marriage, divorce, etc.). Your beneficiary cannot be changed by, and is not affected by, any other documents such as a divorce decree or will.
- d. If you want to name more than four principal or contingent beneficiaries, list the additional beneficiaries on the Beneficiary Continuation Form (page 5) and check the block under the principal or contingent blocks on page 2, indicating that you have done so. The Beneficiary Continuation Form (page 5) should then be attached to page 2 of the 8286.
- e. If you name minor children as beneficiaries, the insurance will be paid to the court-appointed guardian of the children's estate.
- f. You can establish a trust for the benefit of the children and name the trust as beneficiary. A trust names a trustee of your choice to be legally responsible for administering the insurance proceeds for the children. Naming a trust as a beneficiary on this form does **NOT** create a trust. Before naming a trust as beneficiary, you should consult a military attorney for assistance.

2. **Social Security Number** - Do not delay completing this form if you do not have a beneficiary's Social Security Number. The Social Security Number helps us to locate the beneficiary, but is not required.

3. **Shares to each Beneficiary** - If you name more than one beneficiary, the sum of the shares must equal 100% or the full dollar amount of your insurance.

Example:	mother	\$200,000	or	50%	or	1/2
	<u>father</u>	<u>\$200,000</u>		<u>50%</u>		<u>1/2</u>
	Total	\$400,000		100%		1

4. **Payment Option** - You may choose whether you want the beneficiary to receive payment in one lump sum or in 36 equal monthly payments by writing "lump sum" or "36" in the column labeled Payment Option. If you choose 36 payments, the beneficiary cannot choose to receive a lump sum payment. If you want the beneficiary to have a choice at the time of payment, write "lump sum" or leave the block blank.

5. Provisions For Payment Of Insurance

- a. If you name more than one principal beneficiary and one or more predeceases you, the share(s) will be divided equally among the remaining principal beneficiaries, unless otherwise stated. If there are no surviving principal beneficiaries, the proceeds will be divided among the contingent beneficiaries.
- b. If you do not name a beneficiary, or if there are no surviving beneficiaries, or if you indicate that payment should be made by law, the proceeds will be paid in the following order:
 1. Widow or widower
 2. Children in equal shares (the share of any deceased child will be distributed equally among the descendants of that child)
 3. Parent(s) in equal shares or all to surviving parent
 4. A duly appointed executor or administrator of your estate
 5. Other next of kin

What Your Beneficiaries Should Know

Upon your death, the Casualty Assistance Office for your branch of service will assist your beneficiary in filing a claim for the insurance proceeds. These claims are submitted to the **Office of Servicemembers' Group Life Insurance**, 80 Livingston Avenue, Roseland, NJ 07068-1733. Your beneficiary may also call 1-800-419-1473 for claim information.

Print completed Form

Clear Form

Print Blank Form

Please read the instructions before completing this form.

Servicemembers' Group Life Insurance Election and Certificate Beneficiary Continuation

Instructions: This page is to be used **ONLY** when the service member wants to name more beneficiaries than the number of beneficiary spaces provided on page 2. If this page is completed, it should be copied and distributed together with page 2 of this form.

Member Information

Last name	First name	Middle name	Rank, title or grade	Social Security Number
-----------	------------	-------------	----------------------	------------------------


Beneficiary(ies) and Payment Options

In addition to the beneficiaries I have named on page 2 of this form (SGLV 8286), I also designate the following beneficiary(ies) to receive payment of my insurance proceeds. I understand that the principal beneficiary(ies) will receive payment upon my death. If all principal beneficiaries predecease me, the insurance will be paid to the contingent beneficiary(ies).

Complete Name (first, middle, last) and Address of each beneficiary	Social Security Number (if known)	Relationship to you	Share to each beneficiary (Use %, \$ amounts or fractions)	Payment Option (Lump sum or 36 equal monthly payments)
Principal				
5.				
6.				
7.				
8.				
9.				
10.				
Contingent				
5.				
6.				
7.				
8.				
9.				
10.				

I HAVE READ AND UNDERSTAND the instructions on pages 2 and 3 of this form. I ALSO UNDERSTAND that:

- This is a continuation of my beneficiary designation on page 2 of this form, Servicemembers' Group Life Insurance Election and Certificate.
- The proceeds will be paid to beneficiaries as stated in #6 on page 3 of the SGLV-8286, unless otherwise stated above.

SIGN HERE IN INK  _____ Date: _____
(Your signature. Do not print.)

Do not write in space below. For official use only.

RECEIVED BY:	RANK, TITLE OR GRADE	ORGANIZATION	DATE RECEIVED
--------------	----------------------	--------------	---------------

SGLV 8286, December 2007

Copy 1 - Member's Official Personnel File
Copy 2 - To Member
Copy 3 - To Active or Reserve Component of Uniformed Service

Print completed Form

Clear Form

Print Blank Form



Department of Veterans Affairs

What You Should Know About VA Benefits

Once you enter the service, you may become eligible for a variety of benefits offered by the U.S. Department of Veterans Affairs (VA). These benefits include, but are not limited to the following:

Compensation & Pension

As a veteran, you may become eligible for compensation for any injuries or illnesses you incurred while on active duty or any pre-existing disabilities, which were aggravated by your service in the Armed Forces. You may also be eligible for a disability pension if you are a wartime veteran with limited income and you are no longer able to work or are age 65 or older.

Education & Training

The Montgomery GI Bill is your chance to secure a source of financial assistance for your future education and training needs. Whether you're active duty, Guard, or Reserves you may qualify for benefits. Activated Guard and Reserve members may also be eligible for the Reserve Education Assistance Program Chapter 1607. See your Education Services Officer, or Unit Administrator for more information. Some family members of disabled or deceased veterans are also eligible for education benefits.

Vocational Rehabilitation & Employment

The Vocational Rehabilitation & Employment program helps certain servicemembers and veterans who incur injuries and/or illnesses during their military service to prepare for, obtain, and keep suitable employment. Among the services offered are re-employment, rapid access to employment, self-employment assistance, employment through long term services, and independent living.

How To Contact VA

For more information about VA benefits, you may visit your local VA office or call us toll-free at **1-800-827-1000**. For information on VA life insurance benefits, call **1-800-669-8477**. For more information on VA education benefits, call **1-888-442-4551**. You can also get information on all VA benefits on VA's website at www.va.gov.

Life Insurance

You may be eligible for VA life insurance if you are injured or disabled while you are in the service and VA gives you a rating for your injury or disability. Up to \$10,000 in life insurance coverage is available at standard insurance rates. If you are totally disabled, you may also apply for a waiver of premiums. For those veterans who are eligible for this waiver, additional coverage of up to \$20,000 is available. You can also convert your SGLI insurance to Veterans' Group Life Insurance, which offers lifetime renewable term coverage at competitive rates. Also, Veterans' Mortgage Life Insurance is available to severely disabled veterans who receive a specially adapted housing grant from VA.

Home Loans

VA can guarantee part of a loan from a private lender to help you buy a home, a manufactured home, a lot, or certain types of condominiums. VA also guarantees loans for building, repairing, and improving homes. If you already have a mortgage, VA may be able to help you refinance your loan at a lower interest rate.

APPENDIX B. SGLV 8286, SERVICEMEMBERS' GROUP LIFE INSURANCE ELECTION AND CERTIFICATE, MARCH 2011



Prudential
Office of Servicemembers'
Group Life Insurance

Print Form

Save Completed Form

Clear Form

Servicemembers' Group Life Insurance Election and Certificate

1. About You

<input type="text"/>	<input type="text"/>	<input type="text"/>
Print Name (First, Middle, Last)	Rank, title or grade	Social Security Number
<input type="text"/>	<input type="text"/>	
Duty Location	Branch of Service	

2. About Your Coverage

I am completing this form to: (Check all that apply)

- Name or update my SGLI beneficiary. *You must complete sections 3 & 5.*
 - Increase or restore my SGLI coverage to _____ *You must complete sections 3, 4, & 5.*
 - Reduce my SGLI coverage to _____ *You must complete sections 3 & 5.*
 - Decline (cancel) SGLI coverage. Write below "I do not want insurance at this time." *You must complete section 5.*
- “ _____ ”

Coverage is available in increments of \$50,000 up to a maximum of \$400,000

3. About Your Beneficiaries *Complete this section unless you are declining coverage.*

Primary Name and Address	Social Security Number (if available)	Relationship to you	Share to each (% or \$)	Payment Option (Lump sum* or 36 monthly payments)
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum
Secondary				
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum
_____	_____	_____	_____	Lump sum

Have more beneficiaries? Check the box and complete Supplemental SGLI Beneficiary Form, SGLV 8286S.

If you do not name beneficiaries above, your insurance will be paid by law (see page 3).

* If the insured member elects a lump sum payment, the beneficiary(ies) will be given the option of receiving the lump sum payment either through the Prudential Alliance Account or by check. Alliance is not available for payments less than \$5,000, payments to individuals residing outside the United States and its territories, and certain other payments. These will be paid by check.

Open Solutions Inc. is the Service Provider of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by First Data Payment Services (FDPS). **Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC).** Open Solutions Inc., JPMorgan Chase Bank, N.A., and First Data Payment Services are not Prudential Financial companies.

Print Form

Save Completed Form

Clear Form

4. About Your Health Complete this section ONLY if you are restoring or increasing coverage.

Your date of birth (MM, DD, YYYY)

Your weight

Your height

Your gender Female
 Male

Have you had, been treated for, or had known indications of:

- | | Yes | No |
|--|--------------------------|--------------------------|
| a. A heart condition? | <input type="checkbox"/> | <input type="checkbox"/> |
| b. High blood pressure? | <input type="checkbox"/> | <input type="checkbox"/> |
| c. A neurological disorder? | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Diabetes? | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Cancer or tumors? | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Have you ever been diagnosed as having a disease of the immune system? | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Do you have any known physical impairments, deformities, or ill health not covered above? | <input type="checkbox"/> | <input type="checkbox"/> |

Any request to increase coverage does not take effect until approved by OSGLI.

Did you answer "YES" to any question? If so, reference the question by letter and list date, duration and details below.

5. Your Signature You must complete this section.

I have read the instructions and understand that:

- This form cancels any prior beneficiary or payment instructions.
- I can have SGLI and VGLI coverage at the same time, but the combined amount cannot be more than \$400,000.
- Reducing or declining SGLI coverage can affect the amount of my family coverage, traumatic injury coverage and post-separation coverage (see instructions for details).
- If I am married or get married after completing this form and have not declined SGLI, Family SGLI automatically covers my spouse. I must register my spouse in DEERS so my branch of service can deduct premiums from my pay. *Failure to register my spouse in DEERS will result in my owing debts for unpaid premiums.* I can decline Family SGLI coverage by completing SGLV 8286A.
- I certify that the information provided on this form is true and correct to the best of my knowledge and belief. Any deception or knowingly false statement either by inference or omission may result in cancellation of the insurance or in the refusal to pay a claim.

Service Member Signature

Social Security Number

Date (MM, DD, YYYY)

Current Amount of SGLI

For Branch of Service Use Only	For OSGLI Use Only
Name of Personnel Clerk	Representative
Rank, title or grade	Approve <input type="checkbox"/>
Contact telephone/email	Disapprove <input type="checkbox"/>
Date	Date
Address	

Print Form

Save Completed Form

Clear Form

Information for the Service Member

About your SGLI Coverage

Servicemembers' Group Life Insurance (SGLI) is granted under title 38, United States Code, and is subject to the provisions of that title and its amendments, and title 38 Code of Federal Regulations.

The following charts provide information you should review before naming a beneficiary or selecting a payment option.

Naming Beneficiaries who will receive the insurance

If you ...	Then ...
are married and name someone other than your spouse or child as your beneficiary	The Branch of Service will notify your spouse that he or she is not the named beneficiary.
are married and reduce or decline your coverage	The Branch of Service will notify your spouse that you reduced or declined coverage.
have any life event such as marriage, divorce, or children after completing this form	You should complete a new beneficiary form. Beneficiaries are not automatically changed by life events.
name more than one beneficiary	The sum of the shares must equal 100% or the full dollar amount of your insurance.
want to name more than four primary or secondary beneficiaries	You must complete the SGLI Supplemental Beneficiary Form, SGLV 8286S.
name minors as beneficiaries	<ul style="list-style-type: none"> ■ SGLI will pay the insurance benefit to the court-appointed guardian of the children's estate, if the beneficiary is a minor at time of claim. ■ You can establish a trust for the benefit of the children and name the trust as beneficiary. A trust names a trustee of your choice to be legally responsible for administering the insurance proceeds for the children. ■ Naming a trust as a beneficiary on this form does NOT create a trust.
name more than one primary beneficiary and one or more of them predeceases you	SGLI will pay the shares equally among the remaining primary beneficiaries.
want to name a Trust as a beneficiary	You must create a trust. Please consult with a military attorney, professional financial planner, or estate planner to help you create Trust documents. (Please note: Trust documents are not needed until a claim is submitted.)
have no surviving primary beneficiaries	SGLI will divide the insurance benefit among the secondary beneficiaries.
do not name a beneficiary or there are no surviving primary or secondary beneficiaries OR indicate that payment should be made by law	<p>SGLI will pay the insurance benefit in the following order:</p> <ol style="list-style-type: none"> 1. Widow or widower 2. Children in equal shares (the share of any deceased child will be distributed equally among the descendants of that child) 3. Parent(s) in equal shares or all to surviving parent 4. A duly appointed executor or administrator of your estate 5. Other next of kin

Payment Options

If you want the beneficiary to ...	Then ...
receive the insurance proceeds in one lump sum	<p>Write the phrase "lump sum" under Payment Options. If you elect a lump sum payment, your beneficiary(ies) will be given the option of receiving the lump sum payment either through the Prudential Alliance Account* or by check.</p> <p>*Alliance Account is not available for payments less than \$5,000, payments to individuals residing outside the United States and its territories, and certain other payments. These will be paid by check.</p>
receive the insurance proceeds in 36 equal monthly payments	<ul style="list-style-type: none"> ■ Write "36" under the Payment Option. ■ Your beneficiary cannot change this payment option.
have a choice	Write the phrase "lump sum" under Payment Option or leave blank.

Print Form

Save Completed Form

Clear Form

Instructions for Personnel Clerk and the Service Member

1. A representative of the Uniformed Services must complete the "For Branch of Service Official Use Only" section to indicate receipt of the form from the member after reviewing the following table:

If the service member ...	The Personnel Clerk should inform the service member that...	Then Personnel Clerk should...
has just entered the service	he or she is automatically insured for \$400,000 SGLI, unless the service member declines or reduces coverage.	
is increasing or restoring SGLI	he or she must complete Section 4, <i>About Your Health</i> .	<ul style="list-style-type: none"> ■ Approve form if the responses to questions 4a through 4g are "No" and forward the form to payroll to change SGLI premium deductions. ■ Send form to OSGLI if any answer to questions 4a through 4g are "Yes." Only inform payroll when approved by OSGLI.
is reducing SGLI	<ul style="list-style-type: none"> ■ an application with health questions is required to increase coverage at a later date. ■ if the member is married, the Branch of Service must provide written notification to his or her spouse that the member reduced coverage. 	Forward the form to payroll to change SGLI premium deductions.
is declining SGLI	<ul style="list-style-type: none"> ■ this will also cancel Family SGLI coverage—both spousal coverage and dependent child coverage—and Traumatic Injury Protection (TSGLI). ■ if the member is married, the Branch of Service must provide written notification to his or her spouse that the member declined coverage. 	<ul style="list-style-type: none"> ■ Have the service member complete SGLV 8286A to end payment of Family spousal premiums. The service member does not need to complete a form to end payment of TSGLI premiums. ■ Forward the form to payroll to change SGLI premium deductions.
is married or gets married after completing this form	<ul style="list-style-type: none"> ■ Family SGLI automatically covers spouse. ■ he or she must register their spouse in DEERS for payroll to deduct premiums. ■ If the member wants to decline coverage or take a lesser amount of spousal coverage, the member must complete SGLV 8286A. 	If applicable, forward the form to payroll to begin premium deductions for the spousal coverage. Forward the form to payroll to begin premium deductions for the spousal coverage, if applicable.
has questions about this form	the advice of a military attorney is available at no expense.	Direct them to the appropriate resource.
wants to designate more beneficiaries than the form allows	he or she must complete the Supplemental SGLI Beneficiary Form SGLV 8286S.	Attach the Supplemental Beneficiary Form to the 8286.
wants to designate an unusual beneficiary given their family circumstances	<ul style="list-style-type: none"> ■ while the member is free to designate anyone he or she chooses as beneficiary, the member must certify that he or she understands the designation is unusual and the person named will receive the benefit. ■ if the member is married, the Branch of Service must provide written notification to his or her spouse that the member changed the designation. 	Have the member sign a paper with the following statement: I certify that I understand my beneficiary designation is unusual, and I intend <named beneficiary> to receive my insurance proceeds in the event of my death. I also understand that if I am married, my spouse will be notified that he/she is not my designated beneficiary.

2. After the form is completed, Personnel Clerk should:

- File a copy in the member's official personnel file
- Provide a copy to the service member
- Provide a copy of the form to the payroll office for the member's unit
- Submit the form to OSGLI ONLY if the member is increasing or restoring SGLI coverage and answered "Yes" to one or more of the health questions
OSGLI
PO Box 41618
Philadelphia, PA 19176-9913

APPENDIX C. AN OPEN LETTER TO THE MILITARY COMMUNITY FROM PRUDENTIAL FINANCIAL: SEPTEMBER 23, 2010

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.

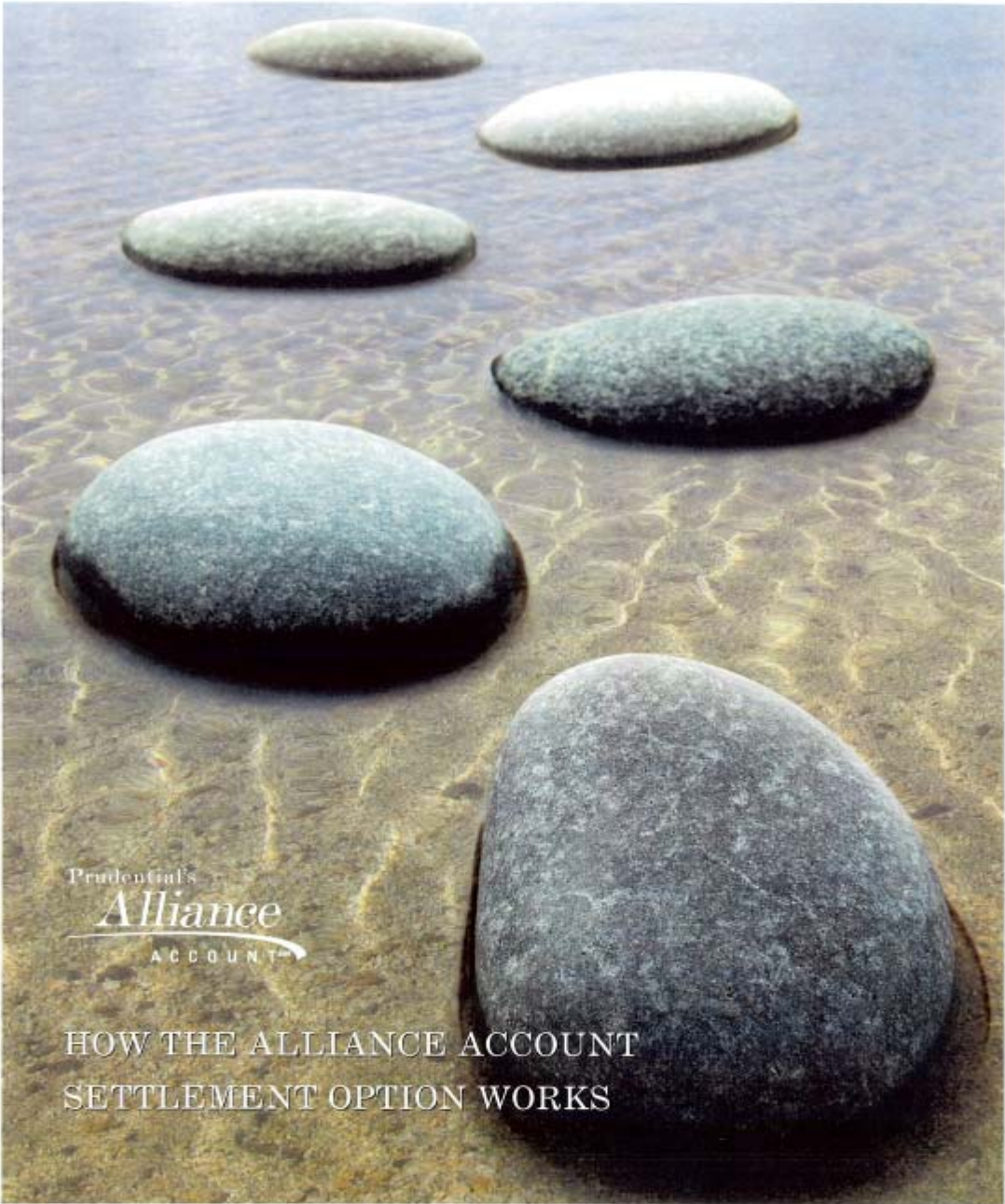
In fairness, Jane Bryant Quinn questions whether the disclosure provided to beneficiaries should be improved. To that end, the Department of Veterans Affairs on Tuesday, Sept. 14, announced measures to do just that. For the record, Prudential supports the changes. We believe the changes will eliminate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

APPENDIX D. PRUDENTIAL ALLIANCE ACCOUNT: HOW THE ALLIANCE ACCOUNT SETTLEMENT OPTION WORKS, MARCH 2008



BENEFITS OF THE PRUDENTIAL ALLIANCE ACCOUNT SETTLEMENT OPTION

Freedom

With a Prudential Alliance Account you have the freedom to take as much time as you need to make important financial decisions, while earning interest.

Convenience

Accessing the funds in the account is as simple as writing a check.

Control

Only you have access to the funds in your Alliance Account.

Flexibility

You can leave the money in your account for as long as you like, withdraw it over time, or take the full balance out whenever you want.

Security

Your entire fund balance is backed by the financial strength of The Prudential Insurance Company of America – one of the largest insurance companies in the U.S.

Support

The Alliance Account has a toll-free number, 1-877-ALLIANCE (1-877-255-4262), with 24-hour automated account information. You can also speak with our dedicated Customer Service Representatives, Monday through Friday, 8 a.m. to 8 p.m. Eastern time.

CLAIM SETTLEMENT CONFIRMATION

This confirms that the proceeds of your claim are now available through the Alliance Account Settlement Option.

Thomas B Anderson
Mary B Anderson
PO Box 678
2063 Pleasant Road
Anywhere USA 12345-1234

Account Number: 123456789012
Opening Balance: 00000000
Current Interest: 00000000
Annual Yield: 0.00%

If you have questions, please call 1-877-ALLIANCE (1-877-255-4262), Monday through Friday 8 a.m. to 8 p.m. Eastern time, to speak with a Customer Service Representative. Or, access automated account information by calling this number any day, 24 hours a day.

Or write:

Prudential Alliance Account Services, The Prudential Insurance Company of America
PO Box 41582, Philadelphia, PA 19176
(Please be sure to include your account number on all written correspondence.)



Dear Thomas B Anderson and Mary B Anderson,

The Prudential Alliance Account is a popular settlement choice for many beneficiaries. I'm sure you'll agree, it offers you numerous benefits not available with other payment options.

With the Alliance Account you now have a simple, secure way to manage and access the funds. You can hold the money in the account for safekeeping for as long as you like, and even leave it to a beneficiary if you choose. To access the money, you simply write a draft ("check") for the amount you need. See the reverse side of this letter for some additional information about your Alliance Account.

In this folder you will find the following materials:

- **Information Request Form:** This form is used to designate your beneficiary. Please complete and return it immediately in the postage-paid envelope provided.
- **Alliance Checkbook:** Includes 15 personalized checks.
- **How the Alliance Account Works:** Answers to frequently asked questions.

We thank you for placing your trust in Prudential during this time of transition. Should you have questions, please call us at 1-877-ALLIANCE (1-877-255-4262).

Sincerely,
Alliance Account Services

Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 761 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

Prudential, Prudential Financial, the Rock Logo, and the Rock Prudential Logo are registered service marks of The Prudential Insurance Company of America, Newark, NJ and its affiliates.

Ed. 03/2008

UNIVERSAL

Access Alliance Account Information Anytime, Anywhere

*With your Alliance Account, round-the-clock access
is just a toll-free phone call away.*

As an Alliance Account customer you can get information toll-free at your convenience, 24 hours a day, seven days a week. During our business hours, 8 a.m. to 8 p.m. Eastern time, Monday through Friday, you can choose to speak with a Customer Service Representative. After hours and on weekends you can still get balance information and perform a number of other tasks through our automated service.

For your protection you will be asked to supply your **Account Number** which is located on the upper right hand corner of your statement and on your Alliance Account drafts ("checks"). Once you enter this information, you will automatically hear your current account balance.

To perform additional tasks, select any of the following options:

	PRESS OR SAY
Reorder checks	1
Hear recent checking activity	2
Order copies of checks	3
Repeat balance and interest rate information	4
Hear these options again	8
Speak with an account representative (Monday through Friday, 8 a.m. to 8 p.m., Eastern time)	0
to have your questions answered and/or to find out about other Prudential products and services	

For Answers Anytime
Call Toll-Free, 1-877-ALLIANCE
(1-877-255-4262)



Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

Prudential, Prudential Financial, the Rock Logo, and the Rock Prudential Logo are registered service marks of The Prudential Insurance Company of America, Newark, NJ, and its affiliates.

Ed. 03/2008

ANSWERS TO FREQUENTLY ASKED QUESTIONS

As you begin to use your Alliance Account you may find that you have questions about how the account works. To help you, we've provided a number of commonly asked questions, along with their answers.

When and how can I access the funds in my Alliance Account?

The funds in your Alliance Account are available immediately. Simply use the enclosed drafts ("checks") to access the account anytime you wish. You can write a check to yourself (which you can cash or deposit at your own bank) or write a check to another person or to any business as you need your funds.

How will I know how much money is in the account?

You'll find the opening balance on the enclosed Confirmation, above the letter, included in this folder. You will receive regular statements showing your current balance, the interest you've earned, checks you've written, and any other account activity. You can also check your account balance 24 hours a day using the automated account information system at 1-877-ALLIANCE (1-877-255-4262).

Is the money secure?

Yes. The funds in your Alliance Account are safeguarded. Your balance, including earned interest, is backed by the financial strength of The Prudential Insurance Company of America – one of the largest life insurance companies in the U.S. For more than 130 years Prudential has been helping to grow and protect the wealth of millions of satisfied customers.

Do the funds in the account earn interest?

Yes. Your funds begin earning interest immediately. Interest is compounded daily and credited every month. The interest rate may change, but not more than once a month. The opening interest rate and annual yield are also printed on your enclosed Confirmation.

How long can I leave the funds in my Alliance Account?

You can leave the money in the account for as long as you want. One of the benefits of the Alliance Account that customers like most is the time it allows them to consider their options. Important financial decisions – even under the best of circumstances – should not be made quickly.

Can I make deposits to my account?

No, individuals cannot make deposits into an Alliance Account. Only eligible payments from other Prudential insurance policies or contracts may be added to the Alliance Account. If you are the recipient of additional Prudential life insurance or annuity proceeds, only one Alliance Account Settlement Option will be set up for all proceeds.

How do I get more checks if I need them?

Additional personalized checks can be ordered at no charge by calling our automated system anytime, 24 hours a day, seven days a week at 1-877-ALLIANCE (1-877-255-4262). To speak directly with a Customer Service Representative, please call between 8 a.m. and 8 p.m. Eastern time, Monday through Friday.

What if I want to close my Alliance Account?

You can close the account by calling the Customer Service office. A check for the remaining balance and interest will be sent to you. Or, you can close the account by writing an Alliance check for the balance and cashing it or depositing it at your own bank. Since interest accrues daily, a check for the remaining accrued interest will be sent to you. The account will close automatically if the balance falls below \$250. If this happens, a check for the balance and any accrued interest will be sent directly to you at the end of the month.



Prudential



Customer Service: 1-877-ALLIANCE (1-877-255-4262)

If you have additional questions, or need more information, call our dedicated Customer Service line at any time. You can speak to a representative directly Monday through Friday between 8 a.m. and 8 p.m., Eastern time. After hours you can still call this number and use our automated system to order checks, check your account balance, and learn the current interest rate.

Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

Prudential, Prudential Financial, the Rock Logo, and the Rock Prudential Logo are registered service marks of The Prudential Insurance Company of America, Newark, NJ and its affiliates.

EA 03/2008



INFORMATION REQUEST

Please complete this form immediately and return it in the postage-paid envelope enclosed.



Prudential's
Alliance
ACCOUNT™

Clearly print your information.

Name (First) _____ (Middle Initial) _____ (Last) _____

Street Address _____

City _____ State _____ Zip Code _____ Check here if new or updated address

Alliance Account Number (located on your Confirmation) _____ Date of Birth _____

E-mail Address _____ Daytime Phone _____ Evening Phone _____

Beneficiary Designation: *If there is a balance remaining in your Alliance Account at the time of your death, it will be paid, as you indicate below, to either your estate or the beneficiary(ies), you designate.*

Check one.

Pay the beneficiary(ies) listed below.

Pay my estate. If choosing to pay my estate, no other beneficiary can be selected.

If you do not designate any beneficiaries, or if all beneficiaries predecease you, any balance remaining will be paid to your estate.

Primary Beneficiary

	Name	Address	Relationship	Social Security Number	% of Proceed
1.	_____	_____	_____	_____	_____%
2.	_____	_____	_____	_____	_____%
				TOTAL	100%

Secondary Beneficiary

A secondary beneficiary would be paid only if all primary beneficiaries predecease you.

	Name	Address	Relationship	Social Security Number	% of Proceed
1.	_____	_____	_____	_____	_____%
2.	_____	_____	_____	_____	_____%
				TOTAL	100%

Please sign here as you would a check.

Signature _____ Date _____

Please complete this form as soon as possible and return it in the enclosed postage-paid envelope to:

Prudential Alliance Account Services, P.O. Box 41582, Philadelphia, PA 19176.

For Customer Service call 1-877-ALLIANCE (1-877-255-4282).

Open Solutions BIS, Inc. is the Administrator of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by Integrated Payment Systems, Inc. Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions BIS, Inc., JPMorgan Chase Bank, N.A., and Integrated Payment Systems, Inc. are not Prudential Financial companies.

Ed. 03/2008

(Please see reverse for additional information.)

Tax Identification Number/W9 Certification

Under the penalties of perjury, I certify that (1) the number shown on this form is my correct taxpayer identification number and (2) I am not subject to backup withholding either because I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or that the IRS has notified me that I am no longer subject to backup withholding. I understand that if I don't complete, sign and return this certification you will backup withhold federal income tax. (3) I am a U.S. person (including U.S. resident alien).

Certification instructions: You must cross out Item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return. If you are not a U.S. person (including U.S. resident alien), you must cross out Item 3 above and submit a completed IRS Form W-8BEN.

You may be subject to IRS penalties, including fines and imprisonment, if you fail to provide your correct Taxpayer Identification Number, fail to report taxable interest or dividends on your tax return, or give false tax information. You may be subject to tax penalties under the estimated tax payment rules if your payments of estimated tax and withholding, if any, are not adequate.

Social Security Number or Taxpayer Identification Number _____

The Internal Revenue Service does not require your consent to any provision of this document other than the certifications required to avoid backup withholding.

Signature _____ Date _____

Sign your name the way you will be signing your Alliance Account drafts ("checks").



SOME IMPORTANT INFORMATION ABOUT THE ALLIANCE ACCOUNT

ACCESS TO FUNDS

Alliance Account funds are accessed by writing a draft ("check"). Checks may be made payable to you or to someone else. Withdrawals cannot exceed the amount of funds available. If you wish to cash a check, you can do so at your own banking institution.

ACCOUNT INTEREST

Interest is compounded daily and credited every month. The interest rate may change but not more than monthly.

ADDITIONS TO FUNDS

Only eligible payments from other Prudential insurance policies or contracts may be added to the Alliance Account. You cannot add funds to the Alliance Account.

CHANGES

The Prudential Insurance Company of America reserves the right to revise this information as necessary and if this occurs, you will be notified.

CLOSING THE ACCOUNT AND MINIMUM BALANCE

If the balance falls below \$250, you will receive a check for the remaining balance plus interest at the end of the monthly cycle in which the balance fell below \$250. You can close the Alliance Account anytime by calling our Customer Service office 8 a.m. to 8 p.m. Eastern time, Monday through Friday. A check for the remaining balance and interest will be sent to you. Or, you can close the account by writing an Alliance check for the balance and cashing it or depositing it at your own bank. A check for the remaining accrued interest will be sent to you.

FEES FOR SPECIAL SERVICES

All checks and basic services are provided at no charge. Fees will be charged against the account for special services. Some of these are listed below:

Checks returned unpaid	\$10 per return
Stop payment orders	\$12 per request
Copies of individual checks or statements	\$2 per copy

Stop payments and copies of cancelled checks or statements may be requested through Alliance Account Customer Service, Monday through Friday between 8 a.m. and 8 p.m. Eastern time. The toll-free number is 1-877-ALLIANCE (1-877-255-4262).

TAXATION

Interest earned on the Alliance Account may be reported to the Internal Revenue Service every year. If the account earns \$10 or more interest in any calendar year, Prudential will send a 1099-INT form for tax reporting purposes. For any questions regarding taxation a tax advisor should be consulted.

TRANSFER OPTIONS

Funds may be transferred from the Alliance Account to any other available Prudential settlement options anytime, at no cost.

QUESTIONS? CALL 1-877-ALLIANCE
(1-877-255-4262)



0079C0

Privacy Notice

This notice is being provided on behalf of the companies listed in this Notice. It describes how information about you is handled and the steps we take to protect your privacy. We call this information "customer data" or just "data." If you have other Prudential products or relationships, you may receive a separate privacy notice describing the practices that apply to those products or relationships. If your relationship with us ends, we will continue to handle data about you the same way we handle customer data.

Protecting Customer Data

We maintain physical, electronic, and procedural safeguards to protect customer data. The only persons who are authorized to have access to it are those who need access to do their jobs. We require them to keep the data secure and confidential.

Information We Collect

We collect data you give us and data about the products and relationships you have with us, so that we can serve you, including offering products and services to you. It includes, for example:

- your name and address,
- income and Social Security number.

We also collect data others give us about you, for example:

- medical information for insurance applications,
- consumer reports from consumer reporting agencies and
- participant information from organizations that purchase products or services from us for the benefit of their members or employees, for example, group life insurance.

Sharing Data

We may share data with affiliated companies and with other companies so that they can perform services for us or on our behalf. We may, for example, disclose data to other companies for customer service or administrative purposes. We may disclose limited information such as:

- your name,
- address, and
- the types of products you own

to service providers so they can provide marketing services to us.

We may also disclose data as permitted or required by law, for example:

- to law enforcement officials,
- in response to subpoenas,
- to regulators, or
- to prevent fraud.

We do not disclose data to Prudential affiliates or other companies to allow them to market their products or services to you. We may tell you about a product or service that a Prudential company or other companies offer. If you respond, that company will know that you were in the group selected to receive the information.

Annual Notices

We will send notices at least once a year, as federal and state laws require. We reserve the right to modify this policy at any time.

If you have questions about Prudential's Privacy Notice please call us. The toll-free number is (800) 236-6848.



Prudential, Prudential Financial and the Rock logo are registered service marks of The Prudential Insurance Company of America, Newark, NJ and its affiliates. The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102-3777.
Your Financial Security, Your Satisfaction & Your Privacy

Privacy 001-8 Ed. 8/2007
IGX1-03067

Many Prudential Financial companies are required to send privacy notices to their customers. This notice is being provided to customers of the Prudential Financial companies listed below:

Insurance Companies and Separate Accounts

Prudential Insurance Company of America, The
American Skandia Life Assurance Corporation
Pruco Life Insurance Company
Pruco Life Insurance Company of New Jersey
Separate accounts of The Prudential Insurance Company of America, Pruco Life Insurance Company, Pruco Life Insurance Company of New Jersey, and American Skandia Life Assurance Corporation
Prudential Retirement Insurance and Annuity Company (PRIAC)
PRIAC Variable Contract Account A

Insurance Agencies

Prudential General Agency of Ohio, Inc.
Prudential General Insurance Agency of New Mexico, Inc.
Prudential General Agency of Texas, Inc.
Prudential Insurance Agency, LLC

Broker-Dealers and Registered Investment Advisers

American Skandia Investment Services, Inc.
American Skandia Marketing, Inc.
Global Portfolio Strategies, Inc.
Prudential Bache Securities, LLC
Pruco Securities, LLC
Pramerica Asset Management, Inc.
Prudential Equity Investors, Inc.
Prudential Investment Management, Inc.
Prudential Investment Management Services LLC
Prudential Investments LLC

Bank and Trust Companies

Prudential Bank & Trust, FSB
Prudential Trust Company

Investment Companies and Other Investment Vehicles

High Yield Income Fund, Inc., The
JennisonDryden Mutual Funds
Nicholas Applegate Fund, Inc.
Prudential Capital Partners, L.P.
Prudential Bache Commodities, LLC
Prudential Institutional Liquidity Portfolio, Inc.
Strategic Partners Mutual Funds
Target Portfolio Trust, The
PB Financial Services, Inc.

**APPENDIX E. SERVICEMEMBERS' AND VETERANS' GROUP
LIFE INSURANCE HANDBOOK, REVISED AUGUST 2009;
CHAPTER 7: ELECTION OF METHOD FOR PAYMENT OF
PROCEEDS**

Supervised by the Secretary of Veterans Affairs
Veterans Benefits Administration
Washington, DC 20420

H-29-98-1
November 2002
Revised: August 2009

**Servicemembers'
and Veterans'
Group Life Insurance
Handbook**

CHAPTER 7. ELECTION OF METHOD FOR PAYMENT OF PROCEEDS

7.01 GENERAL

- a. An insured member may elect that the proceeds of SGLI be paid to the beneficiary in a lump-sum payment or in 36 equal monthly installments. If the insured member elects a lump-sum payment, the beneficiary(ies) will receive the funds through an Alliance Account. An Alliance Account is an interest bearing draft account with an account book similar to a checking account. Insurance proceeds are deposited in the beneficiary's name and the beneficiary can write drafts for any amount up to the full amount of the proceeds.
- b. An insured may also change the method of settlement at any time without the consent of the beneficiary.
- c. If the insured elects a lump-sum payment or makes no election, the beneficiary may choose either the lump-sum settlement or payment in 36 monthly installments.
- d. If the insured elects 36 monthly installments, the beneficiary may not elect a lump sum settlement.

7.02 ELECTION OR CHANGE OF METHOD OF PAYMENT

- a. Insured members should use form SGLV 8286, Servicemembers' Group Life Insurance Election and Certificate, to elect a method of payment or to change a previous election. The member should indicate the option selected in the appropriate column on the form; i.e., either 36 months or lump sum. NOTE: If the election is for a reduced amount of insurance, the member should complete the entire form.
- b. The form SGLV 8286 when completed, signed and dated should be submitted to the uniformed service concerned.
- c. If the election or change is being made during the period the insurance remains in force following separation or release from duty, the form should be sent to the OSGLI.

7.03 EFFECTIVE DATE OF ELECTION OR CHANGE

An election or change is effective the date the form SGLV 8286 is received in the uniformed service concerned or the date such a change is received at the OSGLI, whichever is applicable.

**APPENDIX F. SERVICEMEMBERS' AND VETERANS' GROUP
LIFE INSURANCE HANDBOOK, REVISED FEBRUARY 2011;
CHAPTER 7: ELECTION OF METHOD FOR PAYMENT OF
PROCEEDS**

Supervised by the Secretary of Veterans Affairs
Veterans Benefits Administration
Washington, DC 20420

H-29-98-1
November 2002
Revised: February 2011

**Servicemembers'
and Veterans'
Group Life Insurance
Handbook**

CHAPTER 7. ELECTION OF METHOD FOR PAYMENT OF PROCEEDS

7.01 GENERAL

a. An insured member may elect that the proceeds of SGLI be paid to the beneficiary in a lump sum payment or in 36 equal monthly payments. If the insured member elects a lump sum payment, the beneficiary (ies) will be given the option of receiving the lump sum payment either through the Prudential Alliance Account or by check*, by checking either Lump Sum – Alliance Account®, or Lump Sum – Check in Part IV – Method of Payment on SGLV 8283, Claim for Death Benefits.

* Alliance is not available for payments less than \$5,000, payments to individuals residing outside the United States and its territories, and certain other payments. These will be paid by check.

An Alliance Account is an interest bearing draft account established in the beneficiary's(ies) name(s) with a draft book. The beneficiary can write drafts ("checks") for any amount up to the full amount of the proceeds. There are no monthly service fees or per check charges and additional checks can be ordered at no cost, but fees apply for some special services including returned checks, stop payment orders and copies of statements/checks.

The funds in an Alliance Account begin earning interest immediately and will continue to earn interest until all funds are withdrawn. Interest is accrued daily, compounded daily and credited every month. The interest rate may change and will vary over time subject to a minimum rate that will not change more than once every 90 days. You will be advised in advance of any change to the minimum interest rate via your quarterly Alliance Account statement or by calling Customer Support at (877) 255-4262.

Open Solutions Inc. is the Service Provider of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by First Data Payment Services (FDPS). **Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC).** Alliance Account funds are backed by the financial strength of The Prudential Insurance Company of America and State Guaranty Associations. Open Solutions Inc., JPMorgan Chase Bank, N.A., and First Data Payment Services are not Prudential Financial companies.

b. An insured may also change the method of settlement at any time without the consent of the beneficiary.

c. If the insured elects a lump sum payment or makes no election, the beneficiary may choose either the lump sum settlement or payment in 36 equal monthly payments.

d. If the insured elects 36 equal monthly payments, the beneficiary may not elect a lump sum settlement.

7.02 ELECTION OR CHANGE OF METHOD OF PAYMENT

a. Insured members should use form SGLV 8286, Servicemembers' Group Life Insurance Election and Certificate, to elect a method of payment or to change a previous election. The member should indicate the option selected in the appropriate column on the form; i.e., either 36 months or lump sum. NOTE: If the election is for a reduced amount of insurance, the member should complete the entire form.

b. The form SGLV 8286 when completed, signed and dated should be submitted to the uniformed service concerned.

c. If the election or change is being made during the period the insurance remains in force following separation or release from duty, the form should be sent to the OSGLI.

7.03 EFFECTIVE DATE OF ELECTION OR CHANGE

An election or change is effective the date the form SGLV 8286 is received in the uniformed service concerned or the date such a change is received at the OSGLI, whichever is applicable.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX G. AMENDMENT TO GROUP POLICY G-32000, THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, SIGNED SEPTEMBER 24, 2009

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
(hereinafter called The Insurance Company)
AMENDMENT TO GROUP POLICY G-32000
(to be attached to and made a part of the Group Policy)

The Group Policy is modified as follows:

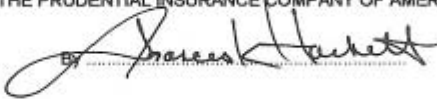
1. Effective September 1, 2009, insert the following, as a new paragraph, after the third paragraph in Section 4 of Article I:

The Insurance Company may fully discharge its payment obligations under the Group Policy with respect to lump sum payments by paying the full amount of insurance proceeds in a single distribution to an account held on deposit with the Insurance Company, either in the beneficiary's name or in trust for the beneficiary.

It is agreed that such changes shall form a part of the Group Policy, but not unless both the Policyholder and the Insurance Company have hereto affixed their respective signatures.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Date 9/24/09

By 

DEPARTMENT OF VETERANS AFFAIRS

Date 9/24/2009

By 
Director, VA Insurance Services

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX H. AMERICAN COUNCIL OF LIFE INSURERS (ACLI): ABOUT RETAINED ASSETS ACCOUNTS



STATEMENT

Contact: Whit Cornman, (202) 624-2442, whitcornman@acli.com

ACLI RESPONDS TO BLOOMBERG ARTICLE ON RETAINED ASSET ACCOUNTS

The American Council of Life Insurers (ACLI) issued the following statement in response to an article from Bloomberg Markets magazine on life insurers' retained asset accounts:

Washington, D.C. (July 28, 2010)—"Recent news reports cast a negative light on retained asset accounts and give short shrift to the benefits these accounts have for beneficiaries.

"Beneficiaries have full access to the money in their retained asset account and can withdraw the full amount right away or at a later date. Moreover, retained assets are merely one option for beneficiaries to receive a death benefit. Other options include a lump sum or payment in a certain number of installments.

"Retained asset accounts provide a significant benefit to family members who are dealing with the emotional loss of a loved one. Not surprisingly, 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.

"Life insurers invest assets for retained asset accounts in their general accounts, generally in low-risk, conservative investments, to ensure the money is available on demand. The rate earned by the account is comparable to similar on-demand accounts and is typically guaranteed by the insurer not to drop below a certain level. Beneficiaries can access their money at any time and transfer it to a bank account, CD or other investments with a higher interest rate.

"Retained asset accounts are backed by the full strength and claims-paying ability of the life insurance company. State insurance departments regulate life insurers' investment practices and closely monitor life insurers' financial strength. Regulators will act quickly to protect consumers at the slightest hint of financial difficulty.

"In 1994, the National Association of Insurance Commissioners developed and approved, with input from consumer groups and insurance industry representatives, a model bulletin for the treatment of retained asset accounts. The model sets forth insurance regulators' expectations for such accounts, including disclosure to consumers of the important features of the account, tax implications and interest rate payments. ACLI continues to fully support this model approach."

#

The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. In addition to life insurance and annuities, ACLI member companies offer pensions, 401(k) and other retirement plans, long-term care and disability income insurance, and reinsurance. ACLI's public Web site can be accessed at www.acli.com.

About Retained Asset Accounts

When any insured person dies, the life insurance company that issued the policy may place the death benefit proceeds into a retained asset account. These accounts accrue interest for the beneficiaries while they decide what they want to do with their benefits. Beneficiaries have full and immediate access to their benefits and can withdraw some or all of it at any time.

Retained asset accounts have existed since 1982. They were developed in response to requests from policyholders who wanted their life insurer to provide a service that would allow them to delay major financial decisions during an emotional and vulnerable time. Today, many insurers provide beneficiaries with this service for both group and individual life insurance policies. According to the National Association of Insurance Commissioners, there have been few if any complaints with regard to these accounts¹.

Features and Benefits of Retained Benefit Accounts

Retained asset accounts have additional features and benefits:

- Life insurers invest assets for retained asset accounts in their general accounts, typically in low-risk, conservative investments, to ensure the money is available on demand.
- The rate earned by the account is comparable to similar on-demand accounts and is typically guaranteed by the insurer not to drop below a certain level.
- At any time, beneficiaries can transfer the funds in their retained asset accounts to a bank account, CD or other investments.
- Interest on a retained asset account begins to accrue immediately.

Consumer Protections and Guarantees

Retained asset accounts are backed by the full strength and claims-paying ability of the life insurance company. State insurance departments regulate life insurers' investment practices and closely monitor their financial strength. Regulators will act quickly to protect consumers at the slightest hint of financial difficulty.

Life insurance policies, including retained asset accounts, are further protected by state guaranty associations and their respective laws. Most states provide coverage for life insurance death benefits of up to \$300,000 and no state provides a coverage limit of less than \$250,000.

In 1994, the National Association of Insurance Commissioners developed and approved, with input from consumer groups and insurance industry representatives, a model bulletin for the treatment of retained asset accounts. The model sets forth insurance regulators' expectations for such accounts, including disclosure to consumers of the important features of the account, tax implications and interest rate payments.

¹ NAIC Press Release, July 29, 2010

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX I. NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC); NAIC PRESIDENT JANE L. CLINE RELEASES STATEMENT REGARDING RETAINED ASSET ACCOUNTS, JULY 29, 2010

NAIC News Release

Page 1 of 2



FOR IMMEDIATE RELEASE

NAIC PRESIDENT JANE L. CLINE RELEASES STATEMENT REGARDING RETAINED ASSET ACCOUNTS

WASHINGTON, D.C. (July 29, 2010) — NAIC President and West Virginia Insurance Commissioner Jane L. Cline issued the following statement today in response to media reports regarding Retained Asset Accounts:

"Retained Asset Accounts (RAA) are a life insurance claims settlement mechanism that have been available to consumers for at least two decades. The accounts were initially created at the request of consumers to provide options for receiving benefits from a life insurance policy, and with proper disclosure, consumers have generally been happy with this flexibility. Traditionally, consumers earn interest under these accounts, allowing their benefit to grow without the need to make impulsive decisions about how to manage the benefit.

"The NAIC is re-reviewing the disclosure requirements associated with RAA and is developing a consumer alert to help policyholders better understand the terms of these kinds of settlements. Regulators are also reviewing the transaction requirements/terms for the "checkbook" usage associated with these types of policies.

"Depending on how an insurance company manages its RAA program, these accounts may not be FDIC insured. However, all states have a life insurance guaranty fund to protect policyholders.

"In addition, all state insurance departments maintain active consumer assistance programs to address consumer complaints, and RAAs have generated few if any complaints. Any consumer who is confused, feels they have been mistreated regarding these types of settlements, or believes there may have been a misrepresentation of the settlement terms should contact their state insurance department."

About the NAIC

Formed in 1871, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC has three offices: Executive Office, Washington, D.C.; Central Office, Kansas City, Mo.; and Securities Valuation Office, New York City. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state



Contacts

Communications Division
(816) 783-8909
news@naic.org

Scott Holeman
Communications Director

Jeremy Wilkinson
Electronic Communications Manager

Mun Gleeson
Communications Specialist

Vanessa Sink
Communications Specialist

Corey Dutra
Communications Intern

Visit the [NEWSROOM](#) to search news releases and for more media information

Join Our E-mail List
Receive the latest news releases and other information from the NAIC Communications Division!

insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more information, visit www.naic.org.

You are currently subscribed to the "NAIC News Release" electronic service. For information regarding this service, please contact the NAIC Communications Division, 2301 McGee Street, Kansas City, MO 64108, 816-783-8909.

To unsubscribe from NAIC Electronic Services, send a blank e-mail to [NAIC Opt Out](#) services.

[\[NAIC Web Site | State Insurance Department Sites | Copyright & Reprint Info | Privacy Statement \]](#)

©2010 National Association of Insurance Commissioners. All rights reserved.

APPENDIX J. PRUDENTIAL ALLIANCE ACCOUNT MONTHLY STATEMENT, STATEMENT CLOSING DATE MARCH 31, 2011

Prudential Alliance Account Services
 The Prudential Insurance Company of America
 P.O. Box 41582
 Philadelphia, PA 19176



ADDRESS SERVICE REQUESTED

ALLIANCE ACCOUNT

Statement Closing Date: 3/31/2011

Account Number: 4352000 [REDACTED]

[REDACTED]
 [REDACTED]
 [REDACTED] 1
 [REDACTED]
 [REDACTED]

|||

ACCOUNT INFORMATION	CUSTOMER SERVICE
---------------------	------------------

Balance Last Statement	\$9,045.12
Balance This Statement	\$9,112.27
SUMMARY	
+ CREDITS	\$67.15
- CHECKS and DEBITS	\$0.00
ENDING BALANCE	\$9,112.27
RATE HISTORY	
CURRENT INTEREST RATE	3.000%
INTEREST CREDITED YEAR-TO-DATE	\$67.15

Contact Information:
 Prudential Alliance Account Services
 The Prudential Insurance Company of America
 P.O. BOX 41582
 Philadelphia, PA 19176

Internet: www.prudential.com

Phone: 1-877-255-4262
 8:00 AM to 8:00 PM, Eastern Time, M-F

Access to your Account Information is also available 24 hours a day 7 days a week. Please have your Account Number (located above) available when calling Toll-Free.

ACCOUNT TRANSACTIONS		AMOUNT	BALANCE
DATE	DESCRIPTION		
01/31	CREDIT-INTEREST	\$23.07	\$9,068.19
02/28	CREDIT-INTEREST	\$20.89	\$9,089.08
03/31	CREDIT-INTEREST	\$23.19	\$9,112.27

EFFECTIVE 4/16/2011 THROUGH 7/15/2011, THE INTEREST RATE CREDITED ON THIS ACCOUNT WILL NOT BE LESS THAN 0.25%
 SEE REVERSE SIDE FOR IMPORTANT REMINDER AND UPDATED TERMS AND CONDITIONS

APPENDIX K. 1965 GROUP POLICY G-32000; THE PRUDENTIAL INSURANCE COMPANY OF AMERICA: SECTION 19: THE CONTRACT

(d) the Insurance Company gives written notice of such discontinuance to the Policyholder, at least sixty days prior to the end of any policy year, in which event such discontinuance shall take effect as of the end of such policy year, provided that, if notice of discontinuance is given because of a change in sub-chapter III, such notice may be given no earlier than the date of enactment of the change in sub-chapter III, in which event such discontinuance shall take effect, unless otherwise mutually agreed between the Insurance Company and the Policyholder, on the effective date of the change in sub-chapter III or the date sixty days after receipt of such written notice by the Policyholder, whichever date is later.

Section 14. FORFEITURE

Any person guilty of mutiny, treason, spying, or desertion, or who, because of conscientious objections, refuses to perform service in the Armed Forces of the United States or refuses to wear the uniform of such force, shall forfeit all rights to insurance under the Group Policy. No insurance shall be payable under the Group Policy for death inflicted as a lawful punishment for crime or for military or naval offense, except when inflicted by an enemy of the United States.

Section 15. NO ASSIGNMENT

A member's insurance and any benefits payable in instalments shall be non-assignable.

Section 16. CERTIFICATES

The Policyholder will arrange for a certificate to be delivered to each member insured under the Group Policy, setting forth the benefits to which such member is entitled under the Group Policy, to whom such benefits are payable, to whom proof of claim should be submitted, and summarizing the provisions of the Group Policy principally affecting the member.

Section 17. DIVIDENDS

The portion, if any, of the divisible surplus of the Insurance Company allocable to the Group Policy at each policy anniversary will be determined annually by the Board of Directors of the Insurance Company and will be credited to the Group Policy as a dividend on such anniversary.

Any dividend under the Group Policy will be (1) paid to the Policyholder in cash or, at the option of the Policyholder, (2) applied toward the payment of premiums.

Section 18. INCONTESTABILITY

The validity of the Group Policy shall not be contested, except for non-payment of premiums, after it has been in force for one year from its date of issue.

Section 19. THE CONTRACT

A copy of the Application of the Policyholder is attached to and made a part of the Group Policy.

All statements made by the Policyholder or by the members insured under the Group Policy shall be deemed representations and not warranties, and no statement made by any member insured hereunder shall be used in any contest of the insurance hereunder unless a copy of the instrument containing the statement is, or has been furnished, to such member or to his beneficiary or to any other person having a beneficial interest therein. No statement made by any member insured under the Group Policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two years during such member's lifetime nor unless it is contained in a written instrument signed by him.

The Group Policy may be amended at any time, without the consent of the members insured hereunder or of any other person having a beneficial interest therein, upon written request made by the Policyholder and agreed to by the Insurance Company, but any such amendment shall be without prejudice to any claim arising prior to the date of the change. No Agent is authorized to alter or amend the Group Policy, to waive any conditions or restrictions contained herein, to extend the time for paying a premium, or to bind the Insurance Company by making any promise or representation or by giving or receiving any information. No change in the Group Policy shall be valid unless evidenced by an amendment thereto signed by the Policyholder and by the President, a Vice President, the Secretary, the Actuary, an Associate Actuary, an Assistant Secretary or an Assistant Actuary of the Insurance Company.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX L. SGLV 8283 CLAIM FOR DEATH BENEFITS, SERVICEMEMBERS' GROUP LIFE INSURANCE, SEPTEMBER 2007

FOR OSGLI USE ONLY	CLAIM FOR DEATH BENEFITS <i>(Servicemembers' Group Life Insurance)</i> <i>(Veterans' Group Life Insurance)</i>	RETURN COMPLETED FORM TO: OFFICE OF SERVICEMEMBERS' GROUP LIFE INSURANCE 80 Livingston Avenue Roseland, NJ 07068-1733
NOTE: THIS FORM IS NOT TO BE USED FOR NATIONAL SERVICE LIFE INSURANCE (NSLI) Policy Numbers Prefixed by V, H, RH, RS, W, J, JR and JS or UNITED STATES GOVERNMENT LIFE INSURANCE (USGLI) Policy Numbers Prefixed by K		
1. NAME OF DECEASED <i>(First, middle, last)</i>	2. SOCIAL SECURITY NUMBER	3. DATE OF DEATH
4. BRANCH OF SERVICE	5. DUTY STATUS ON DATE OF DEATH <i>(If known)</i> <input type="checkbox"/> ACTIVE DUTY <input type="checkbox"/> DISCHARGED OR SEPARATED <input type="checkbox"/> DRILLING RESERVIST <input type="checkbox"/> INDIVIDUAL READY RESERVIST	6. IF DISCHARGED OR SEPARATED, GIVE DATE <i>(If known) (Month, day year)</i>
PLEASE READ THE IMPORTANT INFORMATION AND INSTRUCTIONS ON REVERSE BEFORE COMPLETING.		
PART I — INFORMATION CONCERNING CLAIMANT		
7. NAME <i>(First, middle, last)</i>	8. RELATIONSHIP TO DECEASED	9. DATE OF BIRTH <i>(Month, day, year)</i>
10. SOCIAL SECURITY NUMBER		
NOTE — Complete Items 11A through 14C if you are the widow or widower of deceased.		
11A. DATE OF MARRIAGE <i>(Mo., day, yr.)</i>	11B. PLACE OF MARRIAGE <i>(City and State)</i>	12. DID MARRIAGE CONTINUE UNTIL DATE OF DEATH? <input type="checkbox"/> YES <input type="checkbox"/> NO
13A. DID DECEASED HAVE ANY PREVIOUS MARRIAGES? <input type="checkbox"/> YES <input type="checkbox"/> NO <i>(If "Yes," complete 13B and 13C)</i>	13B. PREVIOUS MARRIAGE TERMINATED BY: <input type="checkbox"/> DEATH <input type="checkbox"/> DIVORCE	13C. DATE PREVIOUS MARRIAGE TERMINATED <i>(If divorced within last 5 years, attach copy of the divorce decree)</i>
14A. DID YOU HAVE ANY PREVIOUS MARRIAGES? <input type="checkbox"/> YES <input type="checkbox"/> NO <i>(If "Yes," complete 14B and 14C)</i>	14B. PREVIOUS MARRIAGE TERMINATED BY: <input type="checkbox"/> DEATH <input type="checkbox"/> DIVORCE	14C. DATE PREVIOUS MARRIAGE TERMINATED <i>(If divorced within last 5 years, attach copy of the divorce decree)</i>
NOTE — If you are not the named beneficiary, widow or widower of the deceased, complete Parts II and III.		
PART II — INFORMATION CONCERNING NEXT-OF-KIN OF DECEASED		
List below the name, age, relationship, and address of: <i>(Check appropriate places below)</i>		
(a) Widow or Widower, <input type="checkbox"/> None If none, was insured ever married? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, did marriage terminate by <input type="checkbox"/> Death Give Date _____ <input type="checkbox"/> Divorce Give Date _____		
(b) If there is no surviving widow or widower, list all the children of the deceased. Include any adopted child or illegitimate child stating which class it is and list the descendants of any deceased child or children. If none, check here <input type="checkbox"/>		
(c) If there are no children or descendants of children, list the surviving parent or parents. Is father deceased? <input type="checkbox"/> Yes <input type="checkbox"/> No Is mother deceased? <input type="checkbox"/> Yes <input type="checkbox"/> No		
(d) If there are no survivors within the degrees indicated in (a) through (c), list below the next of kin who may be capable of inheriting from the deceased <i>(brothers, sisters, descendants of deceased brothers, sisters, etc.)</i> .		
15A. NAME	15B. AGE	15C. RELATIONSHIP TO DECEASED
15D. ADDRESS		
NOTE — Complete Items 16 and 17 ONLY if any of the persons listed above are under age 21.		
16. NAME AND ADDRESS OF GUARDIAN FOR ANY MINOR CHILDREN LISTED ABOVE IF ONE HAS BEEN APPOINTED BY THE COURT <i>(Attach copy of appointment paper issued by court)</i>		17. IF A GUARDIAN HAS NOT BEEN APPOINTED, WILL ONE BE APPOINTED? <input type="checkbox"/> YES <input type="checkbox"/> NO
PART III — INFORMATION CONCERNING THE ESTATE OF THE DECEASED		
18. NAME AND ADDRESS OF EXECUTOR OR ADMINISTRATOR, IF ANY, APPOINTED BY THE COURT TO SETTLE THE ESTATE OF THE DECEASED		19. IF AN EXECUTOR OR ADMINISTRATOR HAS NOT BEEN APPOINTED, WILL ONE BE APPOINTED? <input type="checkbox"/> YES <input type="checkbox"/> NO
PART IV — CERTIFICATION BY CLAIMANT		
I HEREBY CERTIFY that all statements made in this claim are true to the best of my knowledge, information, and belief, and that no evidence necessary to a settlement of this claim is suppressed or withheld. In the event the insured has not previously elected monthly installments, I request that the death benefit be paid in: <i>(Check one)</i> <input type="checkbox"/> One Sum <input type="checkbox"/> 36 Equal Monthly Installments		
20. SIGNATURE OF CLAIMANT <i>(Do not print)</i>	21. ADDRESS <i>(Number and Street, Apt. No., City, State and ZIP Code)</i>	22. DATE
		23. DAYTIME PHONE NUMBER
WARNING — Any intentional false statement in this claim or willful misrepresentation relative thereto is subject to punishment by a fine of not more than \$10,000 or imprisonment of not more than 5 years, or both. (18 U.S.C. 1001).		

SGLV-8283 SEPTEMBER 2007

IF ADDITIONAL SPACE IS REQUIRED, ATTACH SEPARATE SIGNED SHEETS.

INSTRUCTIONS TO CLAIMANTS

THIS FORM SHOULD BE USED WHEN THE DECEASED HAD INSURANCE IN FORCE UNDER SERVICEMEMBERS' GROUP LIFE INSURANCE (SGLI) OR VETERANS' GROUP LIFE INSURANCE (VGLI).

PAYMENT OF DEATH BENEFITS

Under Servicemembers' and Veteran's Group Life Insurance death benefit payments must be made in the following order:

- To the beneficiary named in writing by the insured; if none, the insurance is payable to
- the widow or widower of the insured; if none, it is payable to
- child or children in equal shares with the share of any deceased child distributed among the descendants of that child; if none, it is payable to
- parent(s) in equal shares; if none, it is payable to
- a duly appointed executor or administrator of the insured's estate, and if none, to
- other next of kin.

COMPLETION OF CLAIM FOR DEATH BENEFITS

It is important that all requested information be furnished. Omission or incomplete answers will delay settlement of the claim. All information should be typed or printed in ink, except the signature.

- ITEM 1. Show full name of the deceased serviceman, servicewoman or veteran.
- ITEM 2. Show Social Security number of deceased. If the deceased did not have a Social Security number show service number.
- ITEM 3. Show date of death of deceased.
- ITEMS 4, 5 AND 6. Show branch of service, duty status on date of death (if known), and date of discharge or separation (if known) of deceased.
- ITEMS 7, 8, 9 AND 10. Show your full name relationship to deceased, your date of birth and Social Security number.

If you were married to the deceased when he/she died, but were not named as his/her insurance beneficiary, complete Item 11A through 14C as applicable.

If you were not married to the deceased when he/she died and were not specifically named as his/her insurance beneficiary, complete Part II through 15D. Be sure to provide the required information as to the deceased's marital status and any children. In Items 15A through 15D give the information about persons indicated in the answers to the preceding questions. In Part II use a separate signed sheet if necessary.

Complete Part III if you were not named as the insurance beneficiary, were not married to the deceased at his/her death and are not a parent of the deceased.

Part IV must be completed by all claimants.

EVIDENCE REQUIRED

If the deceased died while on active duty or while a member of a Reserve or National Guard Unit, the Office of Servicemembers' Group Life Insurance will be furnished with proof of death by the Uniformed Service. In all other situations, the claimant must submit a certified copy of the Certificate of Death.

Members performing duty on a full-time basis usually over 30 days and qualified members of the Ready Reserve are insured for 120 days following separation. Members totally disabled at separation may be insured for up to one year following separation as long as total disability continues. If the insured died while covered following separation from service, the claimant must also submit a copy of a report of separation, DD 214.

You will be informed if it becomes necessary to submit other evidence.

If you need assistance in completing this claim form, contact your nearest Department of Veterans Affairs Office.

APPENDIX M. SGLV 8283 CLAIM FOR DEATH BENEFITS, SERVICEMEMBERS' GROUP LIFE INSURANCE, NOVEMBER 2010



DEPARTMENT OF VETERANS AFFAIRS
Regional Office and Insurance Center
P.O. Box 8079
Philadelphia, PA 19101

We are truly sorry for your loss. We know this is a most difficult time in your life, but we want to provide you with the options that are available for you to receive your life insurance payment. Unless the insured designated otherwise, you have three options:

Option A: Alliance Account

This is an account opened for you by the program's primary insurer, The Prudential Insurance Company of America. This account earns interest, and you would be sent a book of drafts (similar to a checkbook). You then have the choice of writing a draft for the entire balance in your Account, or you could use drafts to pay any immediate bills and leave the balance in the Alliance Account until you have the opportunity to consider permanent alternatives.

The Alliance Account is not a bank account and is not insured by the FDIC. The Alliance Account is a contractual obligation of Prudential and backed by the financial strength of the company. While the account is not insured by the FDIC, every state has a state guaranty association that is legally obligated to guaranty payment of at least \$250,000, with most states providing \$300,000 in protection, and a few providing protection of up to \$500,000. These associations have met all obligations since they were created 25 years ago.

If you do not decide on a way to receive your insurance payment, you will automatically receive the funds in an Alliance Account.

Option B: Check Mailed to You

A check for the full amount due will be mailed in your name to the address you enter on the claim form.

Option C: 36 Equal Monthly Installments

You would receive a check each month for the insurance, plus interest, over a period of 36 months.

We strongly urge you to take advantage of the free, independent, third party financial counseling offered through **Beneficiary Financial Counseling Service**. For more information about the counseling service call FinancialPoint at **1-888-243-7351**.

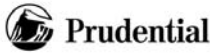
The Casualty Officer assisting you will be able to answer any questions you have, and will help you complete the claim form. If you have questions at a later date please call the Office of Servicemembers' Group Life Insurance at **1-800-419-1473**.

Again, please accept our condolences on your loss.

Sincerely,

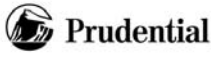
Department of Veterans Affairs

01/2011



Office of Servicemembers' Group Life Insurance

CLAIM FOR DEATH BENEFITS Servicemembers' Group Life Insurance Veterans' Group Life Insurance		RETURN COMPLETED FORM TO:	The Prudential Insurance Company of America Office of Servicemembers' Group Life Insurance 80 Livingston Avenue Roseland, NJ 07068-1733
OSGLI USE ONLY			
Note: This form is not to be used for National Service Life Insurance (NSLI) Policy Numbers Prefixed by V, H, RH, RS, W, J, JR and JS or United States Government Life Insurance (USGLI) Policy Numbers Prefixed by K			
READ THE INSTRUCTIONS ON PAGE 3 AND 4 BEFORE COMPLETING THIS FORM			
1. Name of Deceased (first middle last)		2. Social Security Number	3. Date of Death
4. Branch of Service	5. Duty status on date of death (if known) <input type="checkbox"/> Active Duty <input type="checkbox"/> Discharged or Separated <input type="checkbox"/> Drilling Reservist Ready <input type="checkbox"/> Individual Reservist	6. If discharged or separated, give date (if known) (month day year)	
PART I - Claimant Information			
7. Your Name (first middle last)		8. Your relationship to the deceased	9. Your Date of Birth (month day year)
10. Your Social Security Number			
If you are the widow or widower of deceased complete Items 11A through 14C			
11A. Date of marriage (month day year)		11B. Place of marriage (City & State)	12. Did the marriage continue until date of death? <input type="checkbox"/> Yes <input type="checkbox"/> No
13A. Did deceased have any previous marriages? (If yes, complete 13B & 13C) <input type="checkbox"/> Yes <input type="checkbox"/> No		13B. Previous marriage terminated by: <input type="checkbox"/> Death <input type="checkbox"/> Divorce	13C. Date previous marriage terminated (if divorced within last 5 years, attach copy of the divorce decree).
14A. Did you have any previous marriages? (If yes, complete 14B & 14C) <input type="checkbox"/> Yes <input type="checkbox"/> No		14B. Previous marriage terminated by: <input type="checkbox"/> Death <input type="checkbox"/> Divorce	14C. Date previous marriage terminated (if divorced within last 5 years, attach copy of the divorce decree).
PART II - Information concerning the next of kin of the deceased If you are not the named beneficiary, widow, or widower of the deceased, complete Part II and III			
In the table below, list the name, age, relationship, and address of:			
(a) Widow or widower <input type="checkbox"/> None If none, was insured ever married? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, did marriage terminate by: Divorce (mm dd yyyy) _____ Death (mm dd yyyy) _____			
(b) If there is no surviving widow or widower, list all the children of the deceased. Include any adopted child or illegitimate child and indicate each child's status. List the descendants of any deceased child or children. If no children, check box: <input type="checkbox"/>			
(c) If there are no children or descendants of children, list the surviving parent or parents. Is the father deceased? <input type="checkbox"/> Yes <input type="checkbox"/> No Is the mother deceased? <input type="checkbox"/> Yes <input type="checkbox"/> No			
(d) If there are no survivors within the degrees indicated in (a) through (c), list below the next of kin who may be capable of inheriting from the deceased (brothers, sisters, descendants of deceased brothers or sisters, etc.).			
15A. Name	15B. Age	15C. Relationship to deceased	15D. Address
Complete Items 16 and 17 ONLY if any of the persons listed above are under the age of 21.			
16. Name and address of guardian for any minor children listed above if one has been appointed by the court. (Attach copy if appointment paper issued by court.)			17. If a guardian has not been appointed, will one be appointed? <input type="checkbox"/> Yes <input type="checkbox"/> No



Office of Servicemembers' Group Life Insurance

Name of Deceased:

SSN of Deceased:

PART III - Information concerning the estate of the deceased		
18. Name and address of the executor or administrator, if any, appointed by the court to settle the estate of the deceased.		19. If an executor has not been appointed, will one be appointed? <input type="checkbox"/> Yes <input type="checkbox"/> No
PART IV - Method of Payment		
I HEREBY CERTIFY that all statements made in this claim are true to the best of my knowledge, information, and belief, and that no evidence necessary to a settlement of this claim is suppressed or withheld. In the event the insured has not previously elected 36 monthly installments, my preferred method of payment is: <input type="checkbox"/> Lump Sum - Alliance Account® <input type="checkbox"/> Lump Sum - Check <input type="checkbox"/> 36 Equal Monthly Payments When no payment option is selected, the Alliance Account is the default option.		
PART V - CERTIFICATION BY CLAIMANT		
I HEREBY CERTIFY that all statements made in this claim are true to the best of my knowledge, information, and belief and that no evidence necessary to a settlement of this claim is suppressed or withheld.		
20. Signature of claimant (Do not print)	21. Address (Number and Street, Apt. No., City, State, ZIP Code)	22. Date
		23. Phone
WARNING - Any intentionally false statement in this claim or willful misrepresentation relative thereto is subject to punishment by a fine of not more than \$10,000 or imprisonment of not more than 5 years, or both (18 U.S.C. 1001)		

Open Solutions Inc. is the Service Provider of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by First Data Payment Services (FDPS). Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC). Open Solutions Inc., JPMorgan Chase Bank, N.A., and First Data Payment Services are not Prudential Financial companies.



INSTRUCTIONS TO CLAIMANTS *

THIS FORM SHOULD BE USED WHEN THE DECEASED HAD INSURANCE IN FORCE UNDER SERVICEMEMBERS' GROUP LIFE INSURANCE (SGLI) OR VETERANS' GROUP LIFE INSURANCE (VGLI).

PAYMENT OF DEATH BENEFITS

Under the SGLI and VGLI, death benefit payments must be made in the following order:

- To the beneficiary named in writing by the insured; if none, the insurance is payable to
- the widow or widower of the insured; if none, it is payable to
- the child or children in equal shares with the share of any deceased child distributed among the descendants of that child; if none, it is payable to
- parent(s) in equal shares; if none, it is payable to
- a duly appointed executor or administrator of the insured's estate, and if none, to
- other next of kin.

COMPLETION OF CLAIM FOR DEATH BENEFITS

It is important that all requested information be furnished. Omission or incomplete answers will delay settlement of the claim. All information should be typed or printed in ink, except the signature.

- ITEM 1 Show full name of the deceased service member or Veteran.
- ITEM 2 Show Social Security Number of deceased. If the deceased did not have a Social Security Number show service number.
- ITEM 3 Show date of death of deceased.
- ITEMS 4, 5 AND 6 Show branch of service, duty status on date of death (if known), and date of discharge or separation (if known) of deceased.
- ITEMS 7, 8, 9 AND 10 Show your full name, relationship to deceased, your date of birth, and Social Security Number.

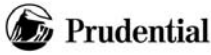
If you were married to the deceased when he/she died, but were not named as his/her insurance beneficiary, complete Items 11A through 14C as applicable.

If you were not married to the deceased when he/she died and were not specifically named as his/her insurance beneficiary, complete Part II through 15D. Be sure to provide the required information as to the deceased's marital status and any children. In Items 15A through 15D give the information about persons indicated in the answers to the preceding questions. In Part II use a separate signed sheet if necessary.

Complete Part III if you were not named as the insurance beneficiary, were not married to the deceased at his/her death and are not a parent of the deceased.

Part IV must be completed by all claimants.

* Contact your nearest Department of Veterans Affairs Office if you need assistance in completing this claim form.



Office of Servicemembers'
Group Life Insurance

EVIDENCE REQUIRED

If the deceased died while on active duty, or while a member of a Reserve or National Guard Unit, the Office of Servicemembers' Group Life Insurance will be furnished with proof of death by the Uniformed Service. In all other situations, the claimant must submit a certified copy of the Certificate of Death.

Members performing duty on a full-time basis, usually over 30 days, and qualified members of the Ready Reserve are insured for 120 days following separation. Members totally disabled at separation may be insured for up to two years following separation as long as total disability continues. If the insured died while covered following separation from service, the claimant must also submit a copy of a report of separation, DD 214.

You will be informed if it becomes necessary to submit other evidence.

ABOUT THE ALLIANCE ACCOUNT

1. The funds in an Alliance Account begin earning interest immediately and will continue to earn interest until all funds are withdrawn. Interest is accrued daily, compounded daily, and credited every month. The interest rate may change and will vary over time subject to a minimum rate that will not change more than once every 90 days. You will be advised in advance of any change to the minimum interest rate via your quarterly Alliance Account statement or by calling Customer Support at (877) 255-4262.
2. The interest rate credited to the Alliance Account is adjusted by Prudential at its discretion based on variable economic factors (including, but not limited to, prevailing market rates for short term demand deposit accounts, bank money market rates and Federal Reserve Interest rates) and may be more or less than the rate Prudential earns on the funds in the account.
3. An Alliance Account is an interest bearing draft account established in the beneficiary's name with a draft book. The beneficiary can write drafts ("checks") for any amount up to the full amount of the proceeds. There are no monthly service fees or per check charges and additional checks can be ordered at no cost, but fees apply for some special services including returned checks, stop payment orders and copies of statements/checks.
4. **The funds in your Alliance Account are available immediately.** Simply use the enclosed drafts ("checks") to access the account anytime you wish. You can write a check to yourself (which you can cash or deposit at your own bank) or write a check to another person or to any business as you need your funds.
5. Alliance Account funds are part of Prudential's General Account and are backed by the financial strength of The Prudential Insurance Company of America which has been in business and serving its customers for over 130 years. **The Alliance Account is not a bank account or a bank product, and therefore, is not FDIC insured.**
6. Accountholders cannot make deposits into an Alliance Account. Only eligible payments from other Prudential insurance policies or contracts may be added to the Alliance Account.
7. You can access the money immediately by using the draft book ("check book") you will receive. There are no monthly service fees or per check charges and additional checks can be ordered at no cost, but fees apply for some special services including returned checks, stop payment orders and copies of statements/checks.

Open Solutions Inc. is the Service Provider of the Prudential Alliance Account Settlement Option, a contractual obligation of The Prudential Insurance Company of America, located at 751 Broad Street, Newark, NJ 07102-3777. Check clearing is provided by JPMorgan Chase Bank, N.A. and processing support is provided by First Data Payment Services (FDPS). **Alliance Account balances are not insured by the Federal Deposit Insurance Corporation (FDIC).** Open Solutions Inc., JPMorgan Chase Bank, N.A., and First Data Payment Services are not Prudential Financial companies.

THIS PAGE INTENTIONALLY LEFT BLANK

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
Ft. Belvoir, Virginia
2. Dudley Knox Library
Naval Postgraduate School
Monterey, California
3. Professor David R. Henderson
Naval Postgraduate School
Graduate School of Business and Public Policy
Monterey, California
4. Professor Chong Wang
Naval Postgraduate School
Graduate School of Business and Public Policy
Monterey, California
5. Mr. Steven Wurtz
Deputy Assistant Director for Insurance
Department of Veterans Affairs
Regional Insurance Center Philadelphia
Philadelphia, Pennsylvania
6. Commander Gregory Stump, U.S. Coast Guard
Assistant Director, Military Compensation
Office of the Under Secretary of Defense (OUSD)
Military Personnel Policy (MPP)
Washington, DC