SERVICEMEMBERS' GROUP LIFE INSURANCE

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INTRODUCTION

When it comes to Servicemembers' Group Life Insurance (SGLI) benefits, many military members simply sign the form and never think about it again. However, there are many nuances that you should consider. SGLI is a group term life insurance for members of the armed forces, purchased by the government from private insurers, and partially subsidized by the government. Beginning in Fiscal Year 2006, members could elect coverage in $50,000 increments up to $400,000. Default coverage is $400,000. If you would like to lower coverage or don't want the coverage, you must opt out in writing.

WHY CHOOSE SGLI?

SGLI is specifically tailored to meet the needs of military members. It is subsidized by the government, and thus more affordable than most privately-obtained options. Most importantly, it does not contain clauses on pre-existing conditions, war, or suicide like many private plans. SGLI covers you while you are on active duty and keeps you insured for 120 days after you separate.

DESIGNATING A BENEFICIARY

SGLI and other insurance policies are ordinarily not distributed through estate or probate proceedings. This is because insurance policies are separate contracts between the insured and the insurance company. For this reason, a last will and testament will not necessarily determine the beneficiaries of insurance policies. Likewise, other agreements, such as separation agreements or divorce decrees, may not be binding as to beneficiary designations.

An eligible beneficiary can be any person or legal entity designated by the military member on the SGLI form. You can choose any person to be a beneficiary. However, if you choose not to designate a specific person and opt to write "by law" in the beneficiary section, you should be aware of some potential problems. Most significantly, in some cases the designation may lead to SGLI benefits going to unintended individuals.

Under the "by law" provision, SGLI proceeds are paid in the following order: Widow or widower; children; parents; executor/administrator; and lastly to other next of kin.

Also, it is critical that service members keep SGLI beneficiary designations current as life changes occur (e.g., marriage, divorce, and birth of children). Chances are you would like to avoid your ex-spouse or parents from sharing in payments when you intended others to be beneficiaries instead.

DESIGNATING MINORS AS BENEFICIARIES

Generally speaking, while it is possible to designate a minor as your SGLI beneficiary, the proceeds cannot be paid to a minor. If you simply designate a minor as the beneficiary, the SGLI proceeds will not be released and used for the benefit of the minor until a court has appointed a legal guardian for the child. Only then can the funds be disbursed to the guardian for the benefit of the child. The guardian then has broad discretion on how to spend the money, and may spend all of it before the child reaches majority.

Naming a minor as a beneficiary may have unintended consequences. For example, if your ex-spouse is adjudged by the court to be the legal guardian, then he/she will receive complete control over the SGLI proceeds until the child turns 18.

CHOOSING A CUSTODIAN OR TRUSTEE FOR MINORS

There are two other potential choices for leaving SGLI proceeds to minors. First, you may establish a trust. This may be done by specifying in your will that a trust, funded by the SGLI proceeds, be created upon your death with your children as beneficiaries. Only after executing a will with such a trust should the beneficiary of your SGLI be changed to reference this trust. A trust would also allow naming an age greater than 18 for disbursement. Among the disadvantages of doing so, however, are court and legal expenses which will be incurred and deducted from the SGLI funds. In addition, a will that may not otherwise have required probate may need to be probated for the appointment of the trustee.

You may use the following language on your SGLI form to designate a trust as the beneficiary: "To my children, (names), or if my children are under the age of ___, to my trustee to fund a trust established for the benefit of my children under my Last Will and Testament."

CAUTION: Do not change your SGLI until after you have executed your will containing a testamentary trust.

Your second option is to appoint a custodian for your child under the UGMA/UTMA. By setting up a UGMA/UTMA account, you will avoid the expenses associated with a trust and can directly appoint the person who will act as custodian and make all financial decisions for your child based on their needs and maturity. Furthermore, there is no delay period between the distribution of SGLI proceeds to the custodian and the administration of your estate. One disadvantage is that disbursement in most states must occur at 18, regardless of the maturity of the child.

***This handout is general in nature. It is not a substitute for legal advice from an attorney regarding individual situations. (August 2021)**

For additional information on this and other legal topics, see the Air Force Legal Assistance Website: https://aflegalassistance.law.af.mil