

# SGLI FACT SHEET



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## SERVICEMEMBER'S GROUP LIFE INSURANCE

**What is SGLI?** When it comes to Servicemember's Group Life Insurance (SGLI) benefits, many military members simply sign the form and never think about it again. However, there are many nuances to SGLI that you need to 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. As of 1 April 2001, active duty members are automatically insured for \$400,000, unless they opt out or decrease the amount.

For military members, SGLI is a better choice than an alternative insurance plan because it does not contain certain clauses that are routinely found in other insurance plans. These types of clauses include a pre-existing conditions clause, a suicide clause, and a war cause, all of which could be used to prevent a military member's family from receiving benefits under certain circumstances. Additionally, SGLI not only provides you protection while you're on active duty, but it also covers the first 120 days following separation.

**Beneficiaries.** A very important issue to consider is who you have designated as your beneficiary on your SGLI form in the event of your death. SGLI (and other insurance policies) are ordinarily not distributed through estate/probate proceedings. A last will and testament will not determine the beneficiaries of insurance policies. The service member's beneficiary designation governs payment of the proceeds, irrespective of contrary intent expressed in a last will and testament or by other agreement (i.e., separation agreement or divorce decree).

An eligible beneficiary can be any person or legal entity designated by the military member on an appropriate VA Form (VA Form SGLV-8286). The military member has the absolute right to choose the beneficiary. However, you have the option to place no one as your beneficiary, or to indicate "by law" in the place where you would normally list a beneficiary. If you choose either of those options, then SGLI proceeds are paid according to the SGLI statute. According to the statute, the proceeds will first go to your spouse, but if you don't have a spouse, then to your surviving children in equal shares. If you don't have any children, the proceeds will go to your parents. If you don't have any parents, the proceeds will go to the executor of your estate. Finally, if you don't have a will that names an executor, the proceeds will go to your next of kin according to state law.

However, it is strongly recommended that you avoid either leaving the SGLI designation blank or writing in "by law". In fact, the Army, Navy, and Marines no longer even allow their

members to use the "by law" designation. By indicating the "by law" designation, the money may not go to the person you really want it to. For example, the SGLI definition for "parents" is limited to the father/mother of a legitimate child, adopted child, and mother of an illegitimate child. The father of an illegitimate child is considered the parent also, but only if this fact has been acknowledged in a signed writing prior to death, or there exists a judicial decree to that effect or proof of paternity has been established from official records.

Take, for example, the 1991 case of *Lanier v. Traub*, litigated in Federal court. In that case, the military member, Joe, had been raised by his stepfather. Joe indicated on his SGLI proceeds that he wanted the money to go "by law." However, when Joe died, this designation precluded the stepfather from sharing in the SGLI proceeds, and the money went to Joe's natural father and mother who had nothing to do with raising Joe. It is fairly safe to say that Joe would have preferred the money to go to the man that raised him, his stepfather. It is also very important that you keep your designation current, especially if you have gotten divorced and/or remarried.

**Minor Beneficiaries.** It is possible to designate a minor as your SGLI beneficiary. However, SGLI proceeds cannot be paid directly to a minor, except for a minor spouse. As a result you need to set up an appropriate instrument, such as a trust or UGMA/UTMA account, which will hold the money for the child. If you simply designate a minor as your SGLI beneficiary and take no further action, the SGLI proceeds will not be released and used for the benefit of a minor until an adult acting on behalf of the minor petitions a court to be appointed the guardian for the SGLI proceeds. Since the appointment of a guardian takes place after the military member's death, the member has no input as to the person selected to act for the minor. Additionally, certain bond, court and legal expenses will have to be paid out of the SGLI proceeds initially as well as during the time that the designated beneficiary remains a minor. Finally, all SGLI proceeds will usually have to be paid to the minor at age 18, regardless of the minor's maturity, or lack thereof.

To set up a UGMA/UTMA account, you need to select a custodian who is willing to hold the money for the child. There is no requirement for court involvement and as a result, the military member, and not the court, determines who will act in the minor's best interest with regard to the use of SGLI proceeds. Additionally, the UGMA/UTMA custodian can use the SGLI proceeds as he or she determines is appropriate for the benefit of the child during the period of time the child remain a minor. There will also be no delay in the distribution of SGLI proceeds to the designated UGMA/UTMA custodian.

You can also designate a trustee under a trust established in a will to receive the money and hold it on behalf of a beneficiary. However, before completing the SGLV-8286 form you need have a will already prepared, the will must contain a trust, and the will must be executed. The advantages of creating a trust are that the trustee can use the SGLI proceeds for the benefit of the minor for a period of time, and in the manner specified in the will. Additionally, direct distribution of SGLI proceeds may be delayed beyond the 18th birthday of the minor to ensure that the child is old enough to handle the money.

**Key points to remember:**

1. Avoid the "by law" designation entirely; it may not leave the money to the person you really want it to go to.
2. List specific individuals as your beneficiaries.
3. If there are any changes in your life (such as a divorce), make sure to update your form to ensure that the person(s) listed is who you'd actually like to receive the proceeds, as your beneficiary.
4. Almost all powers of attorney are prohibited from changing the preferences on your SGLI form. That means you must make all necessary changes before you deploy! If you need to, you may be able to change the form when you get to your temporary duty station. Just to be safe, always update your forms before a deployment.
4. If you want to designate a minor as the beneficiary, make sure that the appropriate instrument is set up to receive the money on behalf of the minor.

*Sources:*

<http://www.insurance.va.gov/sgliSite/SGLI/sgliFaq.htm#11>

<http://www.insurance.va.gov/miscellaneous/index.htm>

*The information provided in this document is meant for the sole use of Active Duty service members, retirees, and their families. The information is general in nature and meant only to provide a brief overview of various legal matters. Rights and responsibilities vary widely according to the facts and circumstances in each case. Laws can vary across states, services, and civilian jurisdictions. Do not rely upon the general restatements of background information presented here without discussing your specific situation with a legal professional.*