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LEAVING SERVICEMEMBER GROUP LIFE INSURANCE (SGLI) PROCEEDS TO MINORS

SGLI policy is the largest single estate asset for many members of our military community, and careful management of this resource is vital to effective estate planning. Soldiers frequently desire to leave proceeds to minor children, either as alternate beneficiaries or primary beneficiaries in blended families. Naming a minor child as a **direct beneficiary** to a life insurance policy is not the best approach, as there are restrictions on a minor's ability to own property outright. If a minor is named as a direct beneficiary, a Court will have to appoint a guardian to manage the child's property. This process takes time and expense, and may result in delayed payments.

Those who wish to leave SGLI assets to minors can do it in several different ways without establishing a guardian (Note that each option carries different results that should be thoroughly considered by the Soldier with the Division of Legal Assistance before any decision is made.)

Testamentary Trusts: A testamentary trust is a trust that is incorporated into the Soldier's Last Will and Testament. It is a legal instrument that allows the Soldier to name an individual (the "Trustee") to control money for another person (the "Beneficiary") under a set of guidelines laid out in the trust language. The trust sets out when and in what manner funds can be withdrawn, as well as when the trust terminates. The advantages of a trust are the flexibility and protection of specifying the exact conditions of how the money will be handled. Trusts can also delay payment of proceeds to a beneficiary until any age. The downside of trusts is they can be expensive to administer and are generally not suited to smaller amounts of money because fees will be deducted from the principal.

To fund a testamentary trust with SGLI proceeds, you must use the SGLV 8286, Supplemental SGLI Beneficiary Form, and it should be completed to read; "To the trustee of the testamentary trust created in Article ___ of my Last Will and Testament, for the benefit of (name of minor). If no trust, then to (name of child(ren) directly."

Uniform Transfers to Minors Act (UTMA): Arkansas has adopted the Uniform Transfers to Minors Act, a law that permits transfers to minors through a custodian. Under the Act, a custodian deposits the funds into a custodial bank account and manages the property, making decisions concerning buying and selling, reinvesting

earnings, and so forth. The custodian may also take money from the account to spend for the benefit of the child's health, education, and welfare. Although managed by a custodian, the money in the account is owned by the child and will be transferred to the child when the account terminates (usually when the child reaches the age of 18, but may be up to age 21). To make SGLI transfers under the UTMA, the SGLV 8286 should be completed as follows: "To (name of custodian) as custodian for (name of minor) under the (name of state) Uniform Transfers to Minors Act (21)."

This handout is distributed by the Arkansas Office of the Staff Judge Advocate, Office of Legal Assistance as a preventive law service. This document and other helpful information on similar personal legal affairs topics can be found on the office's website located at <https://arkansas.nationalguard.mil/Home/JAG-Legal/>

For more information on this topic or to consult with a legal assistance attorney contact the Arkansas National Guard Office of Legal Assistance at 501-212-5040 to establish eligibility and appointment times.