

INFORMATION PAPER

SUBJECT: Problem Children – Beneficiary Designations for Life Insurance

1. Purpose: To provide information to military families regarding the designation of minor beneficiaries for SGLI and Death Gratuity, either as primary or contingent beneficiaries.
2. Normally the designation of a minor as beneficiary to a life insurance policy is a bad idea. As explained below, such a designation can substantially delay the payment of benefits, and can result in the child receiving a reduced amount of cash at a time when the child is unprepared to manage the money.
3. Insurance proceeds (including death gratuity) cannot be paid to a person under the age of 18. Thus, if a minor is named as beneficiary to such a policy, the life insurance company will not be able to make payments unless a “guardian” of the child’s estate has been established. Since this establishment always requires court action, a biological parent may not accept money on a child’s behalf until and unless the court process has been completed. In some cases, this can take substantial time and money. Guardianships can end as early as 18, which means that your child may become the owner of a \$500,000 bank account when reaching majority (a situation that most parents would try to avoid).
4. To avoid such complications, you may choose to pay your insurance proceeds to a trust created in your will for the benefit of your child. That way, the money that you set aside for the care of your children can be used for their health, education, maintenance and support, and would be managed (but not owned) by a person that you believe is most qualified to manage the money (the trustee). A trustee may qualify immediately after probate of the will and upon appointment and qualification, the proceeds of the insurance shall be paid to the trustee to be held and disposed of under the terms of the will. Trustees have a fiduciary duty to carry out the purpose of the trust and invest wisely. If the trustee violates these duties, the trustee can be replaced and held liable for the losses suffered because of the trustee’s breach to the beneficiaries. Your Fort Belvoir legal assistance office can help ensure that your SGLI proceeds and death gratuity are properly aligned with your will.
5. It is important that you consult with an attorney to discuss all of your estate planning options. Please visit your Fort Belvoir legal assistance office with any questions regarding these important issues.

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