

SGLI Beneficiary Designations

Provided by the
Legal Assistance Branch, MLCPAC (II)
Bldg. 54C, Coast Guard Island
Alameda, California 94501
(510) 437-5891

Instructions for completing part 2, SGLV-8286 (Servicemen's Group Life Insurance Election and Certificate)

1. Beneficiary designations.

a. All Coast Guard members electing SGLI coverage should consider designation of each principal and contingent beneficiary by name or relationship. (See suggested language for naming a trustee for minor children below at paragraph "e" and at figure 6.) Coast Guard members should consider not designating beneficiaries "BY LAW " or "BY WILL" or "MY ESTATE".

b. A Coast Guard member may designate as beneficiary any person, firm, corporation, or legal entity, including a trust. A principal (first) and a contingent (second) beneficiary may be designated. A contingent beneficiary receives the SGLI proceeds if the principal beneficiary dies before the Coast Guard member. When a Coast Guard member designates more than one beneficiary, the SGLV 8286 must clearly show each beneficiary designated as either "Principal" or "Contingent." When the Coast Guard member designates two or more beneficiaries as principal or contingent, the fraction of SGLI proceeds to be paid each beneficiary will be shown on the form. (Note that unless otherwise indicated designated beneficiaries take *per capita*: a descendant of the beneficiary is excluded unless specifically named as a principal or contingent beneficiary.)

c. Designation of children. As with adults, children will be designated by name. However, they may also be designated by relationship when the Coast Guard member desires to provide the same amount of SGLI proceeds to each child.

(1) Designation of children by relationship is desirable when, because of the number of children being designated, it eliminates the need for adding a continuation sheet to the SGLV-8286.

(2) A Coast Guard member designating children by relationship is not required to provide information on the SGLV-8286 as to their names, addresses, or social security numbers.

(3) Coast Guard members, even those with only one child, should not designate "my child," since this may exclude children born after the designation. Those with one child wishing to designate the child as a beneficiary should use the phrase "my child(ren)." See figure 1. A Coast Guard member who has one or more children may designate the child as a beneficiary(ies) by using the phrase "My Children". See figure 2. A Coast Guard member previously married may designate those children as

"My children from my marriage to Jane C. Smith." See figure 3. A Coast Guard member who has children from more than one marriage may designate all the Coast Guard member's children and no others as beneficiaries by naming the spouse and/or former spouse who is also the child(ren)'s natural parent. See figure 4.

(4) When a Coast Guard member has step-children, adopted children, or children born out of wedlock, the Coast Guard member should designate them by name, rather than by relationship.

(5) Coast Guard members designating minors (persons under the age of 18 years), regardless of the relationship, if any, between the Coast Guard member and the children, will be counseled in accordance with paragraph 2, below.

d. A Coast Guard member may designate a custodian for a beneficiary who is a minor under the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). This process permits the Coast Guard member, not a court of law, to determine who will act in the minor's best interest. Designation of a custodian will normally ensure that there is no delay in payment of the SGLI proceeds. See figure 5.

e. Designation of a trustee named in a will. A Coast Guard member may designate a trustee under a trust established in a will. The will must be signed (executed) prior to completing the SGLV-8286. See figure 6.

f. Designation of a trustee named in a trust document (outside a will). A Coast Guard member may designate a trustee under a trust established in a trust document (outside a will). This document may be titled a "Trust Agreement" or a "Declaration of Trust". The Coast Guard member must have the trust document prepared and signed (executed) prior to completing the SGLV-8286. See figure 7.

g. Designation of all beneficiaries will remain in effect until properly changed by the Coast Guard member or until the SGLI is automatically canceled or terminated. Termination of one period of military duty and entry into another period of military duty will not automatically cancel the designation, except where there is a break in service. When there is a break in service the previous beneficiary designation is canceled. (See 38 Code of Federal Regulations (CFR) part 9.16).

2. Advantages and disadvantages regarding beneficiary designations.

a. **Initial SGLI counseling.** The rights, benefits, and privileges available under SGLI will be explained to all eligible Coast Guard members entitled to coverage upon initial entry on AD, or to USCGR. All Coast Guard members will be advised that any questions they have about SGLV 8286 or their beneficiary designations may be answered by attorneys who provide legal assistance at no expense to the Coast Guard member by the servicing legal assistance office.

b. **Unusual designation.** When a Coast Guard member is likely to be survived by family members or parents and names some other person or organization as a beneficiary this is an unusual beneficiary designation. SGLI is intended to provide some form of financial security for family members or parents. Election of beneficiaries is a personal choice requiring careful consideration. The Coast Guard member may

want to insert the following notation near the bottom of the SGLV 8286: "On (insert date) I was counseled regarding this unusual beneficiary designation." See figure 8.

c. **Designation of minors directly by name or by relationship.** A Coast Guard member who wishes to name a minor as a principal or contingent beneficiary, directly by name or by relationship, will be advised that SGLI proceeds cannot be directly paid to a minor, except for a minor spouse. (Examples of such designations are at paragraph 1.) The Coast Guard member will be further advised of the following advantages and disadvantages of designating minors in this manner:

(1) Advantages are:

(a) The probate of a will is not required in order to pay SGLI proceeds. If the SGLI proceeds are the only major asset in the Coast Guard member's estate, the delay and expense involved in probate may be avoided altogether.

(b) A court will determine the person best qualified to serve as guardian of the SGLI proceeds for the benefit of the minor.

(2) Disadvantages are:

(a) Before the SGLI proceeds may be released and used for the benefit of a minor (other than a minor spouse), an adult acting on behalf of the minor (or appointed by a court to do so) must petition a court to be appointed the guardian for the SGLI proceeds. Since the appointment of a guardian takes place after the Coast Guard member's death, the Coast Guard member has no input as to the person selected to act for the minor. In many cases, the person appointed guardian for a child, who is designated as a SGLI beneficiary, may be the Coast Guard member's spouse or former spouse.

(b) Most courts will require the guardian to pay for a surety bond to ensure payment of the SGLI proceeds.

(c) Under some state laws, only a certain amount of money may be spent on behalf of a minor each month, or year, despite the Coast Guard member's election; if more is needed, the approval of a judge must be obtained.

(d) Certain bond, court, and legal expenses will have to be paid out of the SGLI proceeds initially as well as during such period of time the designated beneficiary remains a minor.

(e) The distribution of SGLI proceeds will be delayed pending the appointment of a guardian.

(f) All SGLI proceeds will usually have to be paid to the minor at age 18, regardless of the minor's maturity, or lack thereof.

d. **Designations of custodians and trustees.** Although designating a custodian for minor beneficiaries or a trustee for minor and/or adult beneficiaries is preferable to designating some persons directly by name (or by relationship) as SGLI beneficiaries, these methods require certain steps to be taken before such designations can be made. A Coast Guard member, however, should not delay--nor should the Coast Guard member be counseled to delay--completing the SGLV-8286 to complete those steps. For example, it is preferable that Coast Guard members designate a minor beneficiary directly by name or by relationship and later execute a new SGLV-8286 after they have found a person who has agreed to serve as the minor's custodian or trustee.

e. **Designation a Custodian.** A Coast Guard member who desires to name a custodian for a minor as the principal or contingent beneficiary under the UGMA or the UTMA will be advised that prior to completing the SGLV-8286, they should contact and obtain the approval of the friend, relative, or financial or other institution they want to serve as the UGMA/UTMA custodian for distribution of the SGLI proceeds. Transfer of SGLI benefits under the UGMA/UTMA may be for the benefit of a minor child or children, regardless of their relationship, if any, to the Coast Guard member. The Coast Guard member will be further advised of the following:

(1) Advantages are:

(a) There is no requirement for court involvement. The court appointment of a custodian and the probate of a will is not required in order to pay SGLI proceeds. If the SGLI proceeds are the only major asset in the Coast Guard member's estate, the delay and expense involved in probate may be avoided altogether.

(b) The Coast Guard member, not a court, determines who will act in the minor's best interest with regard to the use of SGLI proceeds.

(c) The UGMA/UTMA custodian can use the SGLI proceeds, as the UGMA/UTMA custodian determines is appropriate, for the benefit of the child(ren) during the period of time the child(ren) remain minor(s).

(d) Ordinarily the UGMA/UTMA custodian will not be required to pay for a surety bond to receive the SGLI proceeds.

(e) There ordinarily will be no delay in the distribution of SGLI proceeds to the designated UGMA/UTMA custodian.

(2) Disadvantages are:

(a) All SGLI proceeds will usually have to be paid to the minor at age 18, regardless of the minor's maturity, or lack thereof.

(b) There is no automatic court supervision of the UGMA/UTMA custodian.

(c) There is no surety bond required that could protect the minor's funds from theft, fraud, waste, and other such acts by the UGMA/UTMA custodian.

f. **Designating a trustee under a trust established in a will.** A Coast Guard member who wishes to designate a trustee under a trust established in a will (a testamentary trust) as a primary or contingent beneficiary will be advised that before completing the SGLV 8286, the Coast Guard member must have a will prepared that contains a trust, and the Coast Guard member must sign (execute) the will. The trust in the will may be established for minors or adults, regardless of their relationship, if any, to the Coast Guard member. The Coast Guard member will be further advised of the following:

(1) Advantages are:

(a) The need (and related expense) of maintaining a surety bond may be waived in the will.

(b) There will be a surety bond required if not waived in the will.

(c) The trustee must account to the court for the proceeds.

(d) The trustee can use the SGLI proceeds for the benefit of the minor for the period of time, and in the manner specified, in the will. Direct

distribution of SGLI proceeds may be delayed beyond the 18th birthday of the minor e.g., upon completion of college, or age 25, whichever occurs first.

(2) Disadvantages are:

(a) The will, which might not have otherwise required probate e.g., because of the small amount of other property in the Coast Guard member's estate, may need to be probated and the court will need to appoint the trustee before the designated trustee may receive the SGLI proceeds. Court and legal expenses will have to be paid.

(b) The distribution of SGLI proceeds will be delayed for a short period until the court appoints the trustee.

(c) If waived in will, there is no surety bond required that could protect the minor's funds from theft, fraud, waste, and other such acts by the trustee.

g. Designating a trustee under a trust established in a trust document (outside a will). A Coast Guard member who wishes to designate a trustee under a trust established in a trust document as a primary or contingent beneficiary will be advised that before completing the SGLV 8286, the Coast Guard member must have a trust document prepared, and the Coast Guard member must sign (execute) the trust document. The trust document may be established for minors or adults, regardless of their relationship, if any, to the Coast Guard member. The Coast Guard member will be further advised of the following advantages and disadvantages of designating a trustee under a trust established in a trust document as a primary or contingent beneficiary:

(1) Advantages are:

(a) There is no requirement for court involvement. The court appointment of a guardian and the probate of a will is not required in order to distribute SGLI proceeds. Court costs and attorney's fees can usually be avoided.

(b) A surety bond (and related expense of maintaining the bond) is not required.

(c) There ordinarily will be no delay in the distribution of SGLI proceeds to the trustee.

(d) The trustee can use the SGLI proceeds for the benefit of the minor for the period of time specified in the trust document in the manner stated in the trust document. Direct distribution of SGLI proceeds may be delayed beyond the 18th birthday of the minor e.g., upon completion of college, or age 25, whichever occurs first.

(2) Disadvantages are:

(a) There is no court supervision of the trustee.

(b) There is no surety bond required that could protect the minor's funds from theft, fraud, waste, and other such acts by the trustee.

(c) The Coast Guard member will usually have to pay a private civilian lawyer to draft and execute a trust document. The trust should be prepared in the member's state of domicile.

h. Failure to properly name beneficiary. Coast Guard members will be advised that if beneficiaries are not designated, or the designation fails e.g., the designated beneficiary dies before the Coast Guard member dies; a trustee is designated, but no trust was established, SGLI proceeds will be paid in accordance with

38 U.S. Code. Section 1970, which provides for SGLI proceeds to be paid in the following order:

- (1) Widow or widower; if none, to--
- (2) Child or children in equal shares with the share of any deceased child distributed among the descendants of that child; if none, to--
- (3) Parent(s) in equal shares; if none, to--
- (4) The executor or administrator of the Coast Guard member's estate; if none, to--
- (5) Other next of kin.

Note: THIS INFORMATION PAPER IS INTENDED ONLY FOR GENERAL INFORMATION REGARDING SGLI BENEFICIARY DESIGNATIONS. YOU SHOULD CONTACT A LEGAL ASSISTANCE ATTORNEY FOR ALL SPECIFIC QUESTIONS.

11/01