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Practice Notes

Financial Light in the Darkness

Leveraging the HEART Act Conversion to Build Generational Wealth for Surviving Military Spouses

By Major Wesley J. Cochrane

Few life events are more devastating than losing a spouse. For surviving military spouses, the days and weeks that follow are marked by profound grief, disorientation, and an overwhelming list of decisions. Some of those decisions can carry long-term impact, including financial impact—offering a path in the darkness toward stability, growth, and even financial legacy. One often overlooked opportunity is the Heroes Earnings Assistance and Relief Tax (HEART) Act Conversion, which gives surviving military spouses the potential to fully fund their retirement accounts, invest for their children’s college, or both, overnight.

Signed into law by President George W. Bush on 17 June 2008, the HEART Act of 2008¹ provides surviving military spouses with a benefit unavailable to any other citizen of the United States. Specifically, section 109 of the HEART Act offers the ability to invest up to \$600,000² in a Roth individual retirement account (IRA), a Coverdell education account, or both, in one fell swoop.³ This practice note delves into section 109 of the HEART Act and offers actionable advice on what Service members can do to prepare their spouses to maximize this unique benefit should the worst occur.

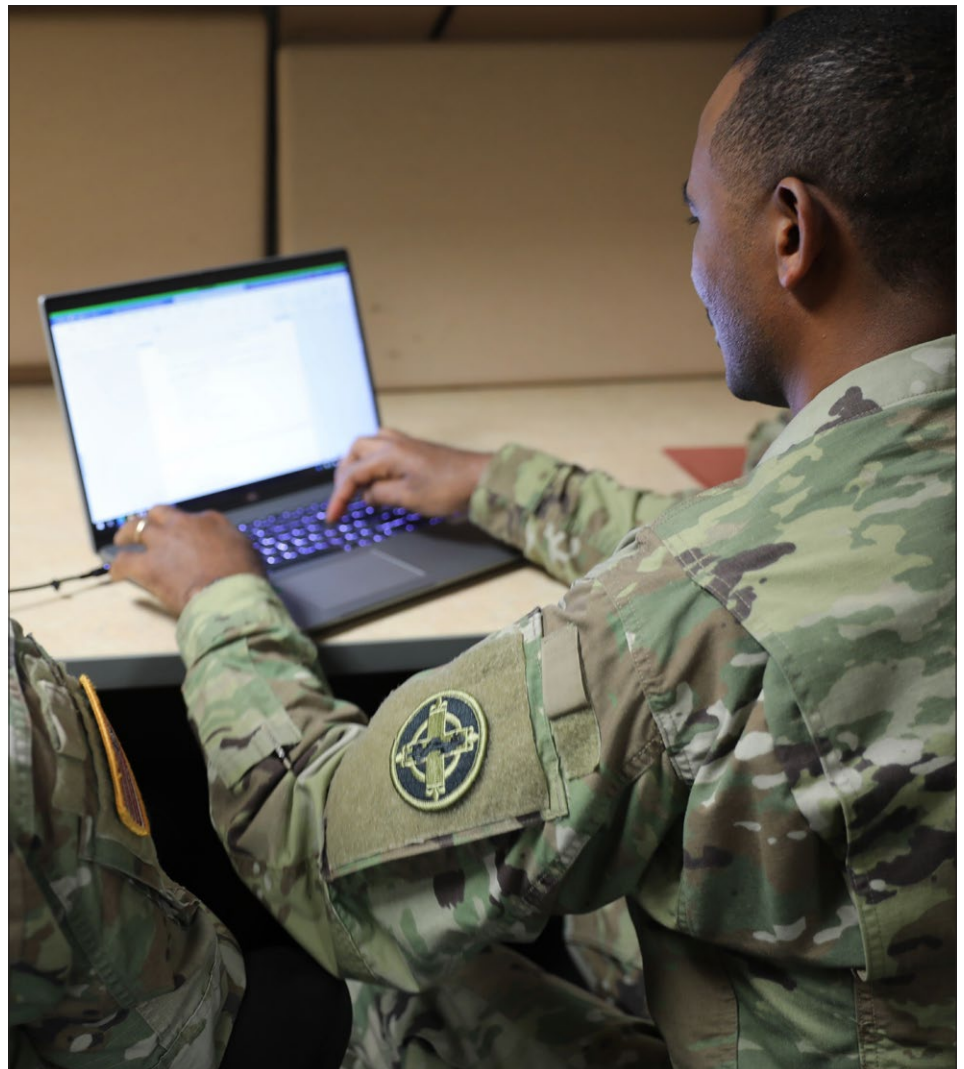
That preparation begins with understanding the HEART Act and educating Service members and spouses on its merits; it also includes the short-term, modest financial commitment all Service members should consider—supplemental term life insurance.

Roth IRA 101

Before Service members can appreciate the magnitude of the HEART Act Conversion, it is helpful to get a refresher on the Roth IRA—a type of IRA available to many Service members. The Roth IRA is a smart investment vehicle for retirement for several reasons, but the most significant is the fact that one’s contributions (i.e., investments one regularly makes to the account) grow, *tax free*, and can be (although they do not have to be)⁴ withdrawn, *tax free*,⁵ after age fifty-nine-and-a-half.⁶ This helps investors build wealth that outpaces inflation and provides a steady income (or supplement to a pension) in retirement. A Roth IRA does, however, have annual contribution limits.⁷ As of 2025, the contribution limit is \$7,000.00.⁸ For individuals aged fifty or older, the limit is \$8,000.00.⁹ While contributions generally can be withdrawn without tax penalty, *earnings* cannot be withdrawn prior to becoming fifty-nine-and-a-half years old without paying income tax and a potential 10 percent tax penalty.¹⁰

As a retirement account, a Roth IRA is merely a vessel with certain tax implications. In other words, there are many ways one’s contributions can be invested *within* the Roth IRA. That said, a prudent,¹¹ tried-and-true approach is to invest most, if not all, of one’s contributions (especially when retirement is decades away), into index funds like the Standard & Poor’s (S&P) 500, which is a stock index that tracks the share prices of the largest U.S. companies¹² and has earned a historical average annual rate of return of between 10 and 10.5 percent since its inception in 1957.¹³

Besides the regular contributions mentioned above, other ways of funding a Roth IRA include “qualified rollover contributions.”¹⁴ Before Congress passed the HEART Act in 2008, there were only a small handful of available qualified rollover contributions (e.g., moving amounts from one Roth IRA to another, or subject to some limits, converting a non-Roth IRA to a Roth



A Soldier prepares his will with the support of a legal assistance attorney. (Credit: CPT Nancy Drapeza)

IRA).¹⁵ Section 109 of the HEART Act changed this.

Now, surviving spouses of Service members covered by 10 U.S.C. § 1475 (i.e., on active duty generally, among other circumstances) or 10 U.S.C. § 1476 (i.e., having been discharged from active duty or other specific circumstances within 120 days) can treat the \$100,000.00 military death gratuity¹⁶ and the \$500,000.00 Service Member Group Life Insurance (SGLI) payment as a “qualified rollover contribution.”¹⁷ In short, a surviving spouse can invest up to \$600,000.00, at one time, into a Roth IRA, where it will grow tax-free into a significant retirement “nest egg.”¹⁸

A few other aspects of section 109 are worth noting. First, a surviving spouse must make the qualified rollover contribution

within one year after receiving the qualifying funds.¹⁹ Second, that spouse can invest up to the entire death gratuity and SGLI payout or nothing at all.²⁰ Third, section 109 of the HEART Act also provided for some or all of the qualifying funds to be invested (again, within that one-year period) into a Coverdell education savings account.²¹ Whatever is invested into a Roth IRA reduces the amount available to be invested into a Coverdell education savings account, and vice versa.²² The Coverdell education savings account functions similarly to a Roth IRA in that contributions grow tax-free and withdrawals for qualifying education expenses can be made tax-free.²³ Like the Roth IRA, non-qualifying education expenses are subject to income tax and an additional tax penalty.²⁴

Power of a Lump Sum Investment in the Roth IRA

Before shifting to discussing some practical ways to optimize estate planning to make the most of the HEART Act Conversion, consider Figure 1 below, which illustrates the power of taking advantage of the HEART Act to contribute some, or all, of the combined SGLI and death gratuity to a Roth IRA.

Rollover Contribution at Age 30	Account Balance at Age 60 (Inflation-Adjusted)	Account Balance at Age 65 (Inflation-Adjusted)	Account Balance at Age 70 (Inflation-Adjusted)
\$600,000	\$4,869,898.00	\$6,903,690.00	\$9,786,846.00
\$500,000	\$4,058,248.00	\$5,753,075.00	\$8,155,705.00
\$300,000	\$2,434,949.00	\$3,451,845.00	\$4,893,423.00
\$200,000	\$1,623,299.00	\$2,301,230.00	\$3,262,282.00
\$100,000	\$811,649.00	\$1,150,615.00	\$1,631,141.00

Figure 1. Approximate values in today’s dollars. Assumes NO further contributions, as well as an average annual growth rate of 10 percent and an average annual inflation rate increase of 3 percent. *U.S. Inflation Rate 1960-2024*, MACROTRENDS, <https://www.macrotrends.net/countries/USA/United-States/inflation-rate-cpi> [<https://perma.cc/4MZA-WK5L>] (last visited Sep. 22, 2025) (showing that the historical inflation rate of increase in the United States is between 3–4 percent annually).

In the scenario above, the generational wealth that can be built by taking advantage of this benefit—a one-time, roughly half-million-dollar investment into a Roth IRA—is self-evident. Even with a more conservative rate of return of 7 percent, a surviving spouse (age thirty) who maximizes the HEART Act conversion will still have accumulated nearly \$2.5 million by age sixty-five (inflation-adjusted), all without ever contributing another dime to the Roth IRA. In other words, a surviving spouse can build a multi-million-dollar retirement nest egg without having to account for monthly contributions in their budget year after year.

Combining the HEART Act Conversion and Term Life Insurance

A glaring question remains: “Won’t the surviving spouse have numerous other

financial needs, in the immediate future, beyond the other monthly survivor benefits (e.g., consumer debt, mortgage/rent, utilities, childcare, car replacement, car maintenance, bills, clothing, food, college expenses, etc.)?” Resoundingly, yes. This is where supplemental term life insurance comes into the equation.

For a relatively modest amount of money per month, Service members can

purchase sizeable supplemental life insurance policies.²⁵ Should tragedy arise, and a Service member dies on active duty, this policy will be paid out immediately and will be available for those day-to-day financial needs (even significant ones), thus freeing the SGLI and death gratuity to be invested exclusively for the future benefit of the surviving spouse and children.

Term life insurance guarantees payment of a specified death benefit (i.e., lump sum) if the covered individual dies during the predetermined term (e.g., ten years, twenty years, thirty years, etc.).²⁶ The covered individual is the one whose death triggers the life insurance payment.²⁷ When someone purchases term life insurance, they purchase a life insurance policy.²⁸ Purchasing the policy begins a (typically) monthly insurance premium that must be paid to keep the

policy active.²⁹ The younger and healthier someone is (particularly non-smokers), the more affordable the premiums are (no more than the cost of YouTube TV, internet, or cellphone plans, depending on the term and the amount).³⁰ For instance, a thirty-year-old male, who does not use nicotine products, can secure a thirty-year, term life insurance policy for \$1,000,000.00 for anywhere between \$51 and \$128 per month, depending on health history.³¹

Unquestionably, everyone’s budget looks different, and for some, adding another line item in addition to the existing cost of SGLI might seem daunting. That said, the reality is that securing a million-dollar supplemental life insurance policy for one’s spouse and children is *entirely realistic*—not something for the privileged few.

Setting the Conditions: Next Steps for Service Members on Active Duty

Service members interested in taking advantage of the HEART Act Conversion should consider taking these next steps.

- Immediately move to get a term life insurance quote on a thirty-year policy between \$500,000.00 and \$1,000,000.00 (as much as you can reasonably afford).
- Establish a Roth IRA for your spouse through a trusted financial institution or advisor.
- Have a candid conversation with your spouse about a financial vision for your life in general, but especially for a scenario in which you die while serving on active duty or within 120 days of discharge. Explain the *power* of the lump-sum investment of the SGLI and Death Gratuity into a Roth IRA. Discuss how the supplemental term life insurance policy is designed to free up the SGLI and death gratuity to do the yeoman’s work of growing, compounding, and providing a future nest egg for your spouse and children (really, the potential to build or maintain generational wealth).
- Leverage free military-provided legal assistance³² to update your legal will (also known as a last will and testament) to draw your spouse’s and/or personal representative’s attention to benefits like the 2008 HEART Act *within the will*, emphasizing your desire that the Death

Gratuity and SGLI be invested into your spouse's Roth IRA. This language will be precatory (i.e., not legally binding or controlling—rather, just expressing a desire), but it will at least serve to emphasize and reiterate a financial course of action you have, hopefully, already discussed with your spouse.

Conversations about premature death are not fun. However, there is no reason for a surviving spouse to be left in the dark when it comes to the generous survivor benefits that Congress has provided for military families. The HEART Act is an unprecedented survivor benefit that every Service member and spouse should be aware of—if anything, for its power to be a financial light in the darkness of tragic loss. **TAL**

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Notes

1. Heroes Earnings Assistance and Relief Tax Act of 2008, Pub. L. No. 110-245, 122 Stat. 1624 (codified as amended at 26 U.S.C. § 408A(e)(2)).
2. See *infra* notes 16, 17 and accompanying text.
3. See sec. 109, 122 Stat. at 1631–33.
4. See, e.g., *Retirement Plan and IRA Required Minimum Distributions FAQs*, INTERNAL REVENUE SERV., <https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs> [https://perma.cc/EE5A-KZSJ] (last visited Sep. 22, 2025) (noting that, unlike the Roth IRA, a traditional IRA, for example, is subject to a required minimum distribution (RMD) starting at age seventy-three, which makes the traditional IRA a less advantageous wealth transfer mechanism compared to the Roth IRA); but see *id.* (explaining that “beneficiaries of Roth IRAs and Designated Roth accounts are subject to RMD rules”).
5. See 26 U.S.C. § 408A(d)(1) (noting that qualified distributions are not included in gross taxable income).
6. *Id.* § 408A(d)(2)(A).
7. *Retirement Topics—IRA Contribution Limits*, INTERNAL REVENUE SERV., <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits> [https://perma.cc/TZ5L-2NYC] (last visited Sep. 22, 2025).
8. *Id.*
9. *Id.*
10. See 26 U.S.C. § 408A(d); *id.* § 72(t) (discussing 10 percent additional tax on early distributions from qualified retirement plans—like the Roth IRA—and certain exceptions to this rule).
11. See Paul R. La Monica, *Warren Buffett Says He Can't Beat the S&P 500*, CNN (Feb. 25, 2019, 14:07



(Credit: Nick Youngson)

ET), <https://www.cnn.com/2019/02/25/investing/warren-buffett-sp-500-stocks/index.html> [https://perma.cc/Z442-DSE4].

12. Kat Tretina & Benjamin Curry, *What Is the S&P 500? How Does It Work?*, FORBES (July 30, 2024, 20:10 ET), <https://www.forbes.com/advisor/investing/what-is-sp-500> [https://perma.cc/QR6U-4BQJ].

13. J.B. Maverick, *What Is the Average Annual Return for the S&P 500?*, INVESTOPEDIA (Sep. 22, 2025), <https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp> [https://perma.cc/6VN9-9ENE].

14. 26 U.S.C. § 408A(e)(1).

15. See INTERNAL REVENUE SERV., NOTICE 2010-15, MISCELLANEOUS HEART ACT CHANGES 22 (Apr. 12, 2010), <https://www.irs.gov/pub/irs-drop/n-10-15.pdf> [https://perma.cc/W2]6-6JCA].

16. See 10 U.S.C. § 1478 (providing that the death gratuity shall be \$100,000.00).

17. See 26 U.S.C. § 408A(e)(2) (providing that up to the sum of the amounts received under 10 U.S.C. § 1477 (Death Gratuity) and 38 U.S.C. § 1967 (SGLI) may be treated as a “qualified rollover contribution”).

18. *Nest Egg*, MERRIAM-WEBSTER, <https://www.merriam-webster.com/dictionary/nest%20egg> [https://perma.cc/RH68-SQ82] (last visited Sep. 22, 2025) (defining nest egg as: (1) “a natural or artificial egg left in a nest especially to induce a hen to continue to lay there” and (2) “a fund of money accumulated as a reserve”).

19. 26 U.S.C. § 408A(e)(2)(A).

20. *Id.* § 408A(e)(2)(A)(i).

21. Heroes Earnings Assistance and Relief Tax Act of 2008, Pub. L. No. sec. 109(b), 110-245, 122 Stat. 1624, 1632; see also 26 U.S.C. § 530(d)(9) (including Coverdell education savings account contributions as qualified rollover contributions).

22. See 26 U.S.C. § 408A(e)(2)(A).

23. See 26 U.S.C. § 530(d)(2); *Topic No. 310, Coverdell*

Education Savings Accounts, INTERNAL REVENUE SERV., <https://www.irs.gov/taxtopics/tc310> [https://perma.cc/N5F8-7GD9] (last visited Sep. 22, 2025).

24. See 26 U.S.C. § 530(d)(2).

25. Service members need to research supplemental life insurance carefully to confirm that any coverage they elect will cover the same (or substantially similar) circumstances as SGLI (e.g., deployments, combat, flight duty, other hazardous duty, etc.).

26. Julia Kagan, *Term Life Insurance*, INVESTOPEDIA (Nov. 26, 2024), <https://www.investopedia.com/terms/t/term-life-insurance.asp#toc-what-is-term-life-insurance> [http://perma.cc/2NEQ-Z4XN].

27. See *id.*

28. See *id.*

29. See *id.*

30. *5 Term Life Insurance Mistakes to Avoid*, RAMSEY SOLUTIONS (Apr. 15, 2025), https://www.ramseysolutions.com/insurance/5-term-life-insurance-mistakes?int_cmpgn=pf_2018&int_dept=lampo_split_bu&int_lctn=No_Specific_Location&int_fmt=text&int_dscpn=pf_term_life_lp-term_life_insurance_mistakes_blog_link [https://perma.cc/KWY8-KX94] (scroll down the page past “Mistake #5,” where you will see a free, term life insurance quote calculator that will provide a monthly estimate of the cost of your policy).

31. See *id.* (calculating the monthly estimate using the factors provided).

32. Service members and their spouses are entitled to free legal assistance by law and policy. See 10 U.S.C. §§ 1044–1044d; see also U.S. DEP’T OF DEF., INSTR. 1350.04, LEGAL ASSISTANCE MATTERS (3 Feb. 2022) (implementing 10 U.S.C. §§ 1044–1044d); U.S. DEP’T OF ARMY, REGUL. 27-3, THE ARMY LEGAL ASSISTANCE PROGRAM para. 4-8 (1 May 2024) (covering military legal documents produced by legal assistance offices, including military testament instruments).