SBP

SURVIVOR
BENEFIT
PLAN

FOR THE UNIFORMED SERVICES

THE SIMPLE FACTS

American Forces Information Service
Department of Defense
1994

This pamphlet explains the basics of the Uniformed Services Survivor Benefit Plan. It is written for *you*, the retiring member, but spouses should also read it. And, where it reads "spouse," it can also apply to a former spouse, but some exceptions are noted.

Details on several SBP features are available in separate fact sheets from your personnel counselor, who can also answer your specific questions.

Fact sheets available include:

Premium Worksheet
Financial Analysis
Spouse Coverage
Former Spouse Coverage
Child Coverage
Insurable Interest Coverage
Supplemental SBP
Member Remarriage
Withdrawal From SBP
VA Payments and SBP
Social Security and SBP
Taxes and SBP
Reserve Component SBP

Options and coverage differ for active duty personnel and retirees. Reservists whose service will make them eligible for retired pay at age 60 should read the fact sheet on the Reserve Component Survivor Benefit Plan, or RC-SBP.

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THE BIG PICTURE

Peace of Mind

Great peace of mind comes with your lifetime, inflation-adjusted monthly retired paycheck. SBP gives your survivors some of the same. This pamphlet gives you the basic details to make that happen! It is not a contract document. The basic statutory provisions of SBP law are in Chapter 73, Title 10, United States Code.

Caution! Some people think they can join SBP years after they retire, during a so-called "open season." In the 20-plus-year history of SBP, only twice have retirees had a second chance at SBP. Each time was after major plan improvements. The last time, premiums were raised for late joiners to help make up for missed premiums.

Don't count on an open season. No more are expected, and it won't give your survivors any peace of mind.

Plan Summary

(Details in other sections)

Retired pay stops when you die!

SBP helps make up for the loss of income. It pays your eligible survivors an inflation-adjusted monthly income.

SBP premiums and benefits depend on what we call the "base amount" that you elect as the basis of your coverage. Your base amount can be your full monthly retired pay or just a portion, down to as little as $300. When this pamphlet says "retired pay," you can substitute "base amount" unless it says otherwise. Full coverage means your full retired pay is your base amount. Your base amount is tied to your retired pay. When retired pay gets a cost-of-living adjustment, or COLA, so does the base amount, and as a result, so do premiums and benefits.

If you are on active duty, retirement-eligible and have a spouse and/or children, they are automatically protected under SBP at no cost to you while still on active duty. If divorced, your former spouse may be protected instead of a current one.

When you retire, you may elect any of several SBP options. SBP elections cannot be canceled or changed after retirement except in specific instances such as a change in your marital status or after the loss of a beneficiary.

You must pay premiums for SBP coverage once you retire. Premiums are taken by reducing retired pay, so they don't count as income. This means less tax and less out-of-pocket cost for SBP. Also, 40 percent of the overall plan is funded by the government, so the average premiums are well below cost. This subsidy means an attractive plan for most people.

At retirement, full basic SBP for spouse and children will take effect automatically if you make no other valid election. You may not reduce or decline spouse coverage without your spouse's written consent. If you have a former spouse, it may affect your options. See the Former Spouse section under Program Details.

Basic SBP for a spouse pays a benefit equal to 35 percent of your retired pay for a spouse age 62 or older. If younger than age 62, the benefit payment is 55 percent of retired pay, but is reduced to 35 percent upon reaching age 62.

After age 62, your spouse will qualify for Social Security benefits in an amount of at least 20 percent of your retired pay. Between SBP and Social Security, your spouse's total income need never be less than 55 percent of your retired pay.

SBP has an option for spouses and former spouses called Supplemental SBP, or SSBP. It pays added benefits of 5, 10, 15 or 20 percent of retired pay when the spouse is over age 62 and the basic SBP benefit is 35 percent. It may be taken only with full basic SBP coverage. SSBP premiums are based on your age at retirement. Since the government doesn't fund any part of SSBP (no subsidy), it is relatively more expensive than basic SBP.

Eligible children may also be SBP beneficiaries, either alone or added to spouse coverage. In the latter case, the children get benefits only if the spouse dies or remarries before age 55. Eligible children equally divide a benefit equal to 55 percent of your retired pay. Child coverage is relatively inexpensive because children get benefits only while they are still your dependents (defined in Program Details section on Pages 7-11).

If you're not married and have no dependent children, you may cover an "insurable interest" person — that is, a close relative or a business partner with a valid interest in your life. If you're not married and have only one child, regardless of dependency status, you may cover that child under this option. Election of insurable interest coverage requires full retired pay as the base amount. The premiums are 10 percent or more of your retired pay. The benefit is equal to 55 percent of your full retired pay after premiums for SBP are subtracted.

SBP as Insurance and Other Estate Planning Information

We buy insurance as a way to cope with major financial risks. We buy it to protect us from the financial hardships of events we can't foresee, like car wrecks and house fires. It protects our valuable assets.

Your retired pay is one such valuable asset. Since it stops when you die and you can't foresee when that will be, it may be useful to insure it.

SBP is a way to do this; it is a form of life insurance for part of your retired pay. But SBP premiums and benefits differ from those of most other insurance plans.

Like life insurance, SBP protects your survivors against the complete loss of financial security when you die. But SBP does more! It also protects your survivor against the possibility of outliving the benefit. Many insurance plans pay only a fixed benefit that may run out years before the survivor dies.

Besides a long life, another unpredictable reason your survivor may outlive other benefits is inflation! SBP protects against this risk through the COLA. Inflation may be the biggest financial uncertainty of all. It erodes the value of fixed incomes, making them worth less and less as time goes by. Few, if any, private insurance plans will fully insure your survivor against the ravages of inflation.

In fact, no known insurance company has guaranteed to match SBP benefits at equal cost or less. One reason is SBP premiums have an average 40 percent built-in discount, making the plan a good buy for most people. Plus, a private insurer needs to cover administrative expenses and make a profit, and these aren't even counted in the 40 percent average subsidy.

Also, SBP premiums reduce your taxable income and cut your out-of-pocket cost for coverage. SBP benefits are taxed as income to the survivor, but the tax rate should be less than you now pay. Most insurance plans are the reverse; premiums are paid from after-tax income, while survivors are not taxed on the proceeds.

In effect then, SBP protects part of your retired pay against the risks of:

- ❑ Your early death;
- ❑ Your survivor outliving the benefits; and
- ❑ The ravages of inflation.

Still, SBP alone is not a complete estate plan. Other insurance and investments are important in meeting needs outside the scope of SBP. For example, SBP does not have a lump sum benefit that some survivors may need to meet immediate expenses upon a member's death.

On the other hand, insurance and investments without SBP may be less than adequate. Even if they could duplicate SBP, investments may be much more risky and rely on a degree of financial expertise many don't have. Consider everything carefully. Don't expect SBP to do it all, but give it full credit for what it does.

Is SBP a Good Buy?

Given the 40 percent average subsidy, the answer to this question for most retirees is yes! Whether SBP is a good buy for you depends on personal preferences and your age, sex and health compared to your beneficiary's. Beyond this, the answer lies in three questions you should ask yourself.

❑ First, is SBP a product I can use? Personal preferences may control your answer, but a subsidized lifetime inflation-protected income is very attractive to most people.

❑ Second, how much SBP can I use? If you know when you'll die, how long your survivor will outlive you and how much inflation will occur, you have the answer. The unknown future is the problem, but SBP meets the need! Even if you die shortly after you retire and your spouse lives for 50 more years and if inflation is higher than expected, SBP will *still* be paying. It will probably be paying a lot more than anyone ever expected because inflation has such a strong impact over a long period of time. In fact, survivors who began to get SBP benefits in the early 1970s have seen their benefits tripled through annual COLAs!

❑ Third, how much SBP can I afford? The benefits do carry a price tag, but due to the subsidy and lack of administrative costs and profit, the plan should be attractive for most members. And remember: The tax advantage on premiums reduces your out-of-pocket cost.

PROGRAM DETAILS

Be sure you have read the Big Picture section. It explains the general provisions and workings of the program. This section gives details on beneficiaries, premiums, benefits, termination of coverage, VA benefits and Social Security. The information that follows defines who qualifies, when benefits are paid, what premium is charged and how the benefit is computed.

Spouse

This means the spouse you're married to when you die. If you marry after retirement, the marriage must last at least one year or you must have children born of that spouse.

Benefits are paid until the spouse dies, but stop upon remarriage before age 55. In this case, they resume if that remarriage ends by death or divorce. If a second SBP benefit results from this remarriage, the surviving spouse must elect which of the two SBP benefits to receive.

Premiums for spouse coverage are 6.5 percent of the base amount. If the base amount is less than $860, the premium is 2.5 percent of the first $401 of the base amount plus 10 percent of any remaining base amount. These exact dollar "thresholds" will increase with any active duty pay raise after Jan. 1, 1994.

The benefits under basic spouse coverage are 35 percent of retired pay, while the spouse is age 62 or older; under age 62 the benefit is 55 percent of retired pay, but is reduced to 35 percent when the spouse reaches age 62.

If your spouse gets Dependency and Indemnity Compensation, or DIC, from the Department of Veterans Affairs, basic SBP benefits will be reduced. Premiums are refunded for that reduction. DIC is paid only when you die of a service-connected cause. For details, see the Special Provisions section for VA benefits (Page 11).

The spouse of a member who had 20 years of service as of Oct. 1, 1985, may use another method to compute the spouse benefit after age 62. Certain spouses may have an advantage under this method. Check the section on special provisions for Social Security benefits.

SSBP is an optional addition to full basic coverage for a spouse or former spouse. It allows a spouse to get a benefit that is greater than 35 percent of full retired pay (no lesser base amount) while age 62 or older. SSBP is fully optional. You don't have to take any SSBP with spouse or former spouse coverage, but you have the option to elect extra coverage of 5, 10, 15 or 20 percent of retired pay. Take care in electing this coverage.

SSBP premiums depend on the level of SSBP coverage elected and your age when the election becomes effective. These premiums have no subsidy and so cost relatively more than basic spouse coverage.

Selected premiums for basic SBP spouse coverage plus SSBP are shown in the table on Page 13. See your personnel counselor for a more complete list. Adding children to SBP coverage with SSBP will cost no more than adding them without SSBP since their benefits are not affected by the Supplemental SBP.

SSBP benefits are paid only when the basic SBP spouse benefit amount is 35 percent — that is, when a spouse is age 62 or older. SSBP pays extra benefits to your spouse of 5, 10, 15 or 20 percent of your retired pay, as elected. SSBP benefits are not reduced if your spouse gets dependency and indemnity compensation from VA.

When you take any level of SSBP, you must waive the option to use the Social Security offset method of computing benefits. Thus, if you had 20 years of service as of Oct. 1, 1985, you should see the Special Provisions section for Social Security benefits (Page 11). By taking SSBP you could be waiving a more favorable benefit computation method.

Regardless of the SBP option you elect, you must promptly notify the finance center if you divorce, if your spouse dies or if you remarry. This ensures premiums are properly suspended or resumed. Otherwise you may end up owing a large debt for the unpaid premiums or pay a lot of premiums that no longer apply.

If your spouse dies before you or you are divorced, spouse premiums are suspended. If divorced, you may convert the spouse coverage to former spouse coverage. See the next section on former spouse coverage.

Under spouse coverage, if you remarry, your new spouse is covered after one year of marriage or upon the birth of your child born of that spouse, if sooner. If you want any change in coverage, you must notify the finance center in writing before your first wedding anniversary. If no other valid election is made by then, your old coverage and premiums automatically apply. Ensure your desired option takes effect.

One option is to stop coverage. Another option is to increase coverage if you took less than full coverage for the first spouse. You can even elect SSBP if you have, or increase to, full coverage. Premiums will be higher, and some make-up premiums may be owed. SSBP premiums will be based on your age as of the first anniversary of remarriage.

Former Spouse

A former spouse may be covered instead of the spouse. This option may be taken by a retired member, or it may be required by a divorce agreement. You must notify the finance center in writing within one year of your divorce. Include a copy of the divorce decree and settlement agreement.

A former spouse should also notify the finance center in writing within the same one-year period, including a copy of the divorce decree and settlement agreement. When a former spouse does this, the election will be "deemed" as made if you fail to make the election yourself.

Former spouse benefits and premiums are identical to those for spouses. Remarriage limitations also apply.

If you take spouse coverage when you retire and later divorce, the coverage may be converted to former spouse coverage. Conversion may be required as part of your divorce agreement. In such case, written notice to the finance center with a copy of the decree should be filed by each party as mentioned above. Converting to former spouse coverage will limit your ability to cover a new spouse if you remarry.

In converting to former spouse coverage, you may not increase your base amount. However, SSBP may be dropped, continued at the same percentage or increased. It may even be added so long as full coverage applies. Premiums for any new SSBP will be based on your age at the time the new election becomes effective. These premiums could be much higher than for the original coverage.

Children

Eligible children may be covered alone (Child Only Coverage) or may be included with spouse (former spouse) coverage (Spouse and Child or Former Spouse and Child Coverage). In the latter options, eligible children get benefits only if your spouse (former spouse) has died or remarried before age 55. Children qualify for payments only during the time they are unmarried and:

- ❑ Under age 18; or
- ❑ Over age 18, but under age 22 and still in school full time; or
- ❑ Suffer a mental or physical incapacity incurred while still

eligible as defined above.

Your eligible children include adopted children, stepchildren, foster children and recognized natural children who live with you in a regular parent-child relationship.

When you include child coverage with former spouse coverage, only your children of that former spouse are covered. Any other children will not be paid benefits under this option. In the child only option or when you include children with spouse (not former spouse) coverage, all of your children are covered.

Monthly premiums for including children with spouse coverage are based on the age of the member, spouse and youngest child at the time the coverage becomes effective. For example, if you are age 42, your spouse age 40 and your youngest child age 10, the premium is $65.56 for each $1,000 of base amount ($65 for the spouse coverage and $.56 for including children).

In the case of child only coverage, the premium is based on your age and the age of your youngest child at the time the coverage becomes effective. For example, if you are age 42 and your youngest child age 10, the premium is $3.80 for each $1,000 of base amount.

Benefits — Eligible children equally divide a benefit equal to 55 percent of your retired pay. For example, if five children are eligible, each is paid one-fifth of the full annuity, or 11 percent of your retired pay. When the first child reaches age 18 with no incapacity and is no longer in school, each of the remaining four is paid one-fourth of the full benefit, or 13.75 percent of your retired pay. This process continues until the youngest child is too old to receive benefits.

Insurable Interest

If you're not married and have no children, you may be able to elect coverage for an "insurable interest" person. This must be a natural person (not a company, organization, fraternity, etc.) with a financial interest in your life. It may be a close relative or a business partner. If you are not married and have only one child, you may elect insurable interest coverage for that child regardless of the child's age or dependency status.

Be careful making this election. Premiums continue unless the beneficiary dies before you. If you cover your brother or sister and later decide you don't want that coverage, you will not be able to stop it. The decision cannot be revoked unless you get married or have children after retirement. You may then elect to cover your spouse or children within one year of the marriage, birth or adoption.

Insurable interest premiums are 10 percent of full retired pay, plus an added 5 percent for each full five years you are older than the beneficiary. A maximum premium of 40 percent applies if you are 30 or more years older than the beneficiary.

Insurable interest benefits are equal to 55 percent of the retired pay remaining after subtracting the SBP premium.

As an example of insurable interest coverage, say your full retired pay is $1,000 and your beneficiary is 12 years younger than you. The age difference is more than 10 years (2 x 5), but not more than 15 years (3 x 5). Thus, the premium is 10 + (2 x 5) = 20 percent, and the premium is .20 x $1,000 = $200. To compute the benefit, subtract this $200 premium from your $1,000 retired pay and multiply the remaining $800 by 55 percent, or .55 x $800 = $440.

SPECIAL PROVISIONS

Termination of Coverage

SBP coverage is permanent for most purposes. You can't stop or change the coverage except under specific conditions.

Premiums stop when there is no longer an eligible beneficiary in a premium category, such as:

- ❑ Children are all too old for benefits and have no incapacity;
- ❑ A spouse is lost through death or divorce; or
- ❑ An insurable interest person dies.

You can terminate SBP coverage if rated by the VA as totally disabled for:

- ❑ 10 or more continuous years; or
- ❑ Less than 10, but more than five, years continuous from the last date of active duty.

Under these circumstances, your death would be presumed to be of service-connected causes, ensuring your spouse's entitlement to DIC.

Thus, you and your spouse may find no advantage to continue SBP coverage. Your spouse must concur in the election to withdraw. Supplemental coverage will also stop in this case, and no benefits will be payable from SBP or SSBP. When you die, your spouse will be refunded all premiums paid.

Social Security Benefits

Social Security benefits for your spouse are not affected by your coverage under SBP. However, SBP was made to work with Social Security benefits. Together, these programs can assure your spouse an income of no less than 55 percent of your retired pay for life.

Your earnings and participation in Social Security during military service mean your spouse will be entitled to Social Security survivor benefits at age 62. These benefits will amount to at least 20 percent of your retired pay with a few exceptions for those retired in grade O-6 and above. Thus, when your spouse reaches age 62 and the basic SBP benefit reduces from 55 percent of your retired pay to 35 percent, the Social Security benefits will allow the spouse to maintain a total income of at least 55 percent of your retired pay.

Some spouses may be able to compute their post-age-62 SBP benefit under another computation method: the Social Security offset method. If, as of Oct. 1, 1985, you had completed at least 20 years of service, your surviving spouse qualifies. Then either the 35 percent benefit will apply or, if more favorable, the offset method will be used unless it has been waived by electing Supplemental SBP.

Among those who may benefit by the offset method are the spouses of those retired above the grade of O-6 and some senior O-6s. Other spouses who may benefit are those whose Social Security benefits will be reduced as a result of retirement from non-Social Security-covered employment such as federal civilian service under the Civil Service Retirement System (but not the Federal Employees Retirement System) or state or local government employment. Their offset from the 55 percent benefit is reduced in proportion to the reduction made in their Social Security survivor's payment.

The offset system may also help spouses whose continued employment and income will cause their Social Security benefits to be reduced. Those who may be affected by this provision should consult a service personnel counselor.

The SSBP enables a surviving spouse to avoid some or all of the reduction from 55 to 35 percent at age 62. With SSBP, a spouse may get a benefit equal to 40, 45, 50 or 55 percent of your retired pay while age 62 and older. When SSBP is elected, the option to use the offset method must be waived. In doing this, you should be certain that you aren't waiving a more favorable benefit that does not have the added cost of SSBP.

VA Benefits

If you get VA disability compensation, your military retired pay is reduced dollar-for-dollar to prevent duplication of benefits. If your VA compensation is great enough, your retired pay may be reduced to the point you have to pay SBP premiums directly. This may affect the tax advantage on those premiums.

Also, if you are totally disabled under the VA program, you may be able to terminate your SBP because, under certain conditions, your spouse will get Dependency and Indemnity Compensation regardless of your cause of death. See the Termination of Coverage section on Page 11 for more details.

If you die of service-connected causes, regardless of the percentage rating, your spouse will qualify for DIC paid by VA. This tax-free benefit reduces, dollar for dollar, the basic SBP benefits for a spouse. When all or part of an SBP annuity is offset by this compensation, premiums for the offset portion are refunded. However, the SSBP annuity, having no subsidy, is not reduced; thus, those premiums are not refunded.

SELECTED PREMIUMS FOR SPOUSE (FORMER SPOUSE) COVERAGE

As a percent of retired pay based on your age and coverage elected.

YOUR AGE	BASIC ONLY	BASIC SBP + SSBP OF 5%	10%	15%	20%
25	6.5	7.25	8.00	8.75	9.50
30	6.5	7.41	8.32	9.23	10.14
35	6.5	7.62	8.74	9.86	10.98
40	6.5	7.56	8.62	9.68	10.74
45	6.5	7.74	8.98	10.22	11.46
50	6.5	8.03	9.56	11.09	12.62
55	6.5	8.44	10.38	12.32	14.26
60	6.5	8.87	11.24	13.61	15.98
65	6.5	9.64	12.78	15.92	19.06
70	6.5	10.41	14.32	18.23	22.14

Rates with SSBP are effective Aug. 1, 1994.
Different rates apply to ages not shown in this table.
See a personnel counselor for a complete list.

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