DA
Survivor Benefit Plan (SBP) Briefing

Retirement Services Office
September 2014

UNCLASSIFIED

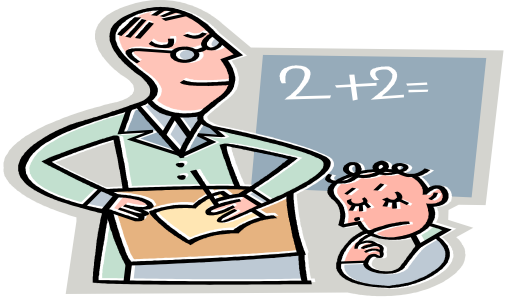
Our Goal

CHANGE.... MISINFORMATION you may have heard about SBP from *MISINFORMED* People

INTO..... INFORMATION

From *INFORMED Experts*

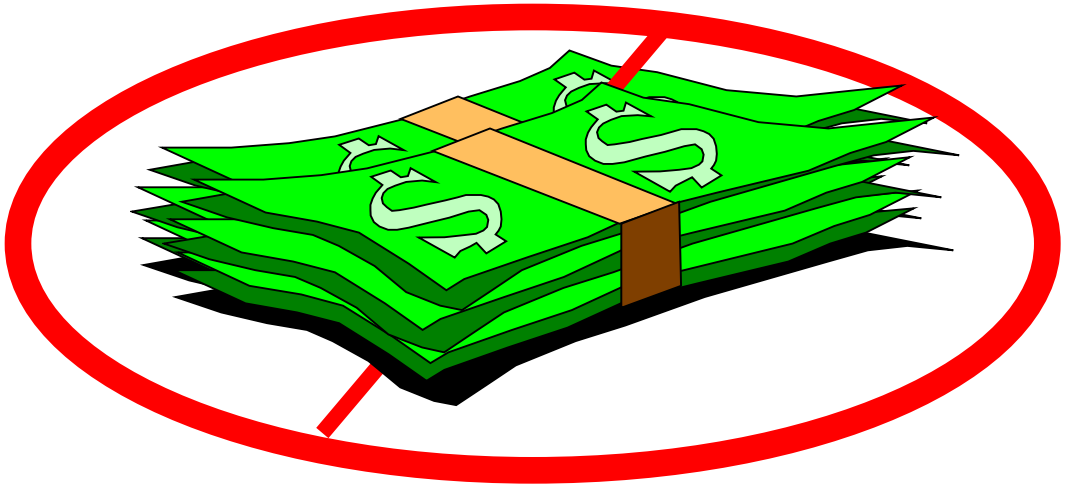
Purpose



This briefing will break SBP down into manageable understandable blocks, to help you to make an informed decision on your individual SBP election.

THE BOTTOM LINE

RETIRED PAY STOPS



WITH THE DEATH

OF THE RETIREE!

Are You Risk Averse?

Weigh:

Higher risk of leaving your loved ones with insufficient income

Against:

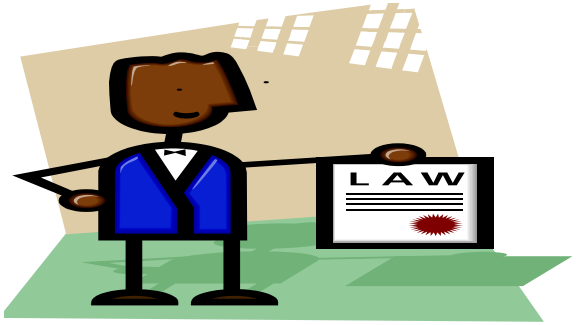
Smaller risk that your survivor may not get back every cent paid in premiums

What is the risk of your spouse outliving you?

- Life Expectancy (Note 1)
  - Male **75.1** years
  - Female **80.2** years
- SBP Annuitants Who Exceed Life Expectancy: **45% or 117,755** (Note 2)

Note 1: US Census Bureau , The 2010 Statistical Abstract
Note 2: Source: DOD Actuary Statistical Report on Military Retirement System

WHAT IS SBP?

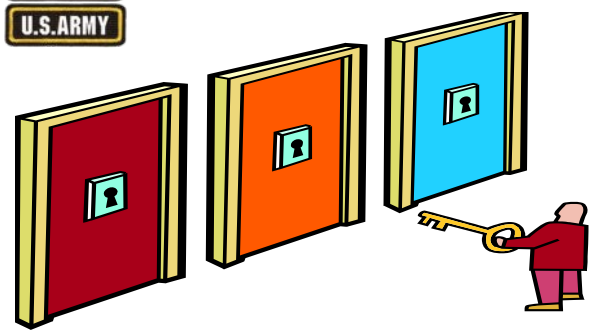


- **Enacted by Congress in 1972**
- **Sole means for retiree to continue a portion of retired pay to survivors**
- **Coverage is free while on active duty**
- **Decision at retirement -- begin to share cost**
- **Over eight out of ten retiring Soldiers elect SBP to protect their family's financial future**

The Annuity

Amount:

- **Annuity of 55% of selected base amount regardless of the annuitants age**

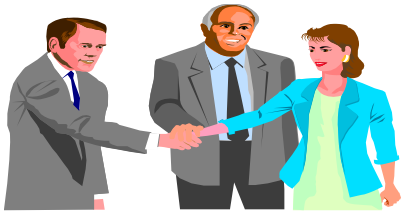


ABOUT ELECTIONS

- **Must be made *before* retirement**
- **Certain elections need spouse concurrence**
- **Generally irrevocable**

  -- may be cancelled with spouse concurrence between months 25-36 following retirement
- **For non-regular Reserve retirement (Age-60), only Reservists who elected RCSBP election Option A, Decline RCSBP**

A “JOINT” Decision For Married Soldiers Who . . .



- decline coverage
- cover less than full retired pay
- elect “child only”
- are under REDUX retirement plan and do not elect full base amount based on retired pay they would have received under High-3

It is the Soldier’s election

- The spouse can only concur or non concur

Termination Feature

- termination during one-time, one-year window between 25th and 36th mo. after start of pay
- spouse concurrence required
- barred from future enrollment
- no refund of past premiums
- why the law change?

  --acknowledges need for flexibility

Six Election Categories

- **Spouse Only**
- **Spouse & Child**
- **Child Only**
- **Former Spouse Only**
- **FS & Child**
- **Insurable Interest**

Spouse Election

- provides annuity of 55% regardless of the surviving spouse's age
- annuity paid forever (unless remarriage occurs pre-55)
- if remarriage ends, annuity reinstated
- increased by annual COLA
- taxable as an annuity
- cost stops when no beneficiary

Spouse & Child Election

- spouse = primary beneficiary
- children are secondary beneficiary and receive the annuity *only if* spouse can't (pre-55 remarriage or death) *and* they are still eligible
- child cost is based on ages of member, spouse & youngest child
- cost of child coverage - very low
- child cost stops when no eligible children remain

Child Only Election

- eligible until 18, or 22 if full-time, unmarried student
- unmarried incapacitated child - eligible forever
- (if condition was incurred pre-18 or 22)
  - Note: It is recommended that you research the impact SBP for a fully disabled child may have on other benefits the child has or will receive.
- cost based on ages of member & youngest child
- all eligible children covered at one cost
- cost stops when no eligible children remain
- cheaper than “spouse” due to finite benefit
- costlier option than child when <u>with</u> spouse since child is primary beneficiary
- annuity divided equally among all eligible children

Advice--Seriously Consider Child Coverage!

- **Q: Why bother to cover my 21-year old son who graduates from college soon?**
- **A: Because....**
  - **incapacitation may occur while still eligible**
  - **"closing" the child category when there are eligible children closes it <u>forever</u>**
  - **family complete? perhaps a step-, grand-, foster- or natural child is in your future**
- **Cost stops when no eligible children remain**

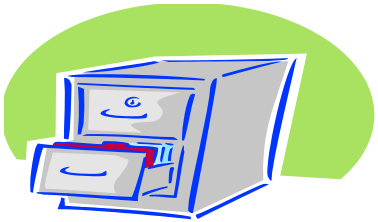
“Insurable Interest” Election

- **Who Can Elect: unmarried Soldiers with no or one dependent child**
- **Eligible Beneficiaries: relative more closely related than cousin; or business associate w/financial interest in Soldier (proof needed)**
- **Base Amount: Must be full retired pay**
- **Cost: 10% + 5% for each full 5 yrs younger beneficiary is than Soldier (maximum 40%)**
- **Benefit: 55% of retired pay *less* SBP cost**
- **Loss of Beneficiary: May elect new beneficiary within 180 days of current beneficiary’s death.**
- **In order for an Insurable Interest election for a medically retired Soldier to be valid, they must live one year from retirement or if they die within one year, death must not be attributable to a medical condition for which they were medically retired.**

Former Spouse (FS) "Particulars"

- **Former spouse SBP coverage can be**:
  - **purely voluntary**
  - **incorporated into a written agreement**
  - **court-ordered**
- **If divorce prior to retirement:**
  - **If court ordered, Soldier should elect former spouse at retirement or could be held in contempt of court**
  - **Former spouse can provide DFAS-CL divorce decree with subsequent court orders plus a DD Form 2656-10 (Survivor Benefit Plan (SBP)/Reserve Component (RC) SBP Request for Deemed Election) within one year of the court order first awarding former spouse SBP**
- **FS coverage can be changed if court order is amended or vacated by former spouse's death**

No Beneficiary at Retirement?



- Keep SBP literature
- Keep “Echoes” -- RSOs’ ph. nos. listed
- Contact nearest RSO for a new briefing as soon as eligible beneficiary is gained
- Decision whether or not to enroll new family members MUST be made within one year of gaining them
- New spouse becomes eligible at 1-year anniversary. (SBP costs do not begin until then)

Base Amount

- amount of retired pay (in dollars) participation is based on
- minimum, by law = $300
- maximum, by law = full retired pay
- may choose any $$ amount between
- Soldiers retiring under CSB/REDUX may choose full base amount based on retired pay they would have received under High-3.

SBP Cost Formula
(Spouse Only)

Formula:

- 6.5% of base amount selected
- cost lowered in Mar '90

Examples:

Base Amount:	$2000	$3000	$4000
Cost (6.5%)	$ 130	$ 195	$ 260
Annuity provided:	$1100	$1650	$2200

Sample SBP Costs

(Ages: Member=44; Spouse=41; Youngest Child=12)

Monthly Cost

Base Amount	Spouse Only	Spouse & Child	Child Only	Annuity Amount
$4000	$260	$260.52	$ 8.00	$2200
$3000	$195	$195.39	$ 6.00	$1650
$2000	$130	$130.26	$ 4.00	$1100

SBP's *Real* Cost

	NO SBP*	SBP
Retired Pay	$2,000	$2,000
SBP Cost	$ 0	$ 130
Taxable Pay	$2,000	$1,870
Tax Paid (28%)	$ 560	$ 524
Tax Savings	$ 0	$ 36
Actual SBP Cost $	0	$ 94

* The SBP participant receives a $36/month tax savings – and a future survivor benefit of $1,100. Tax rates will vary base on each individual's financial situation.

"Threshold" Amount

- Portion of base amount which costs 2.5%
- Only applies to Soldiers whose Date Initially Entered Military Service (DIEMS) date was prior to 1 Mar 90, medical retirements, or reserve non-regular age 60 retirement.
- Indexed annually to AD pay raise(s)
- Instead of a $300 base, cover base amount at 2.5%
- Effective 1 Jan 14

	Base	Cost	Annuity
Threshold	$768	$19.20	$422
Minimum	$300	$ 7.50	$165
Difference	$468	$11.70	$257

Can I Tailor SBP To Meet *My* Needs? Yes....Think "Base Amount"

Challenge: What base amount should I cover to meet our needs?

Solution: Divide the goal amount by 55%

Examples:

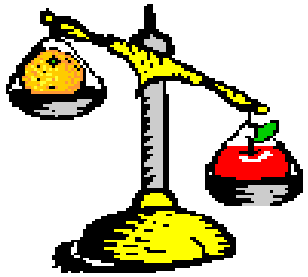
$2000 annuity -- choose $3636 as base

$1000 annuity -- choose $1818 as base

"30-Year Paid-Up Provision"

- effective 1 Oct 2008
- no further cost (but annuity payable)
- AFTER...
  - 30 years of paying SBP Premiums (360 payments)…
- AND
  - reaching age 70

Five Main Points When Comparing SBP to Life Insurance



- It takes a surprising amount of insurance to do for the spouse what SBP will (based on averages).
- It will take a lot more insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time rises due to inflation.
- Even though insurance may appear to be an inexpensive "alternative" *at retirement*, it's harder to obtain and increasingly expensive as you age.
- If retired for **disability,** insurance may be very expensive or even impossible to obtain due to existing medical conditions

Replacement Value of Annuity

Ret Pay: $5000

Member's Age: 43 Spouse's Age: 42

Spouse's Age At Soldier's Death	Annual After-Tax SBP Annuity	Replacement Value of SBP*
42	$29,700	$830,444
53	$38,752	$944,099
63	$52,079	$998,434
73	$69,990	$939,095
83	$94,061	$738,339

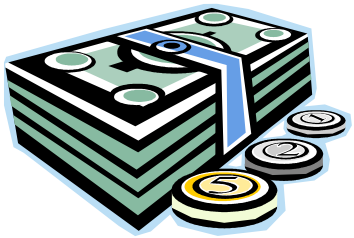
*Face value of insurance needed to equal SBP benefit.

Assumes an inflation amount of 3% and return on invested insurance of 5.75%.

Based on DOD Actuary SBP Program, Spouse will live to live to 86.

Note: To access this program go to DOD Actuary homepage, ww.dod.mil/actuary/, click on "SBP Programs."

Replacement Value of Annuity



Ret. Pay: $3000
Member's Age: 42 Spouse's Age: 41

Spouse's Age at Death	Annual After-Tax SBP Benefit	Replacement Value of SBP*
43	$17,820	$433,516
51	$23,949	$598,904
61	$32,185	$635,844
71	$43,254	$614,876
81	$58,130	$513,003

*Face value of insurance needed to equal SBP benefit.
Note: This program can be accessed on the DOD Actuary homepage, www.dod.mil/actuary/

Replacing SBP with Life Insurance Proceeds--How Long Do They Last?

Retired 2012

Ret Pay = $2,695; Life Insurance = $400K), SBP =$1,482

3% Average Inflation

Death Year	*Spouse Age*	*Insurance Proceeds*	*After-Tax SBP*
2032	60	$400,000	$28,772
2042	70	$239,475	$38,668
2048	76	$ 3,802	$46,171

6% COLA Average

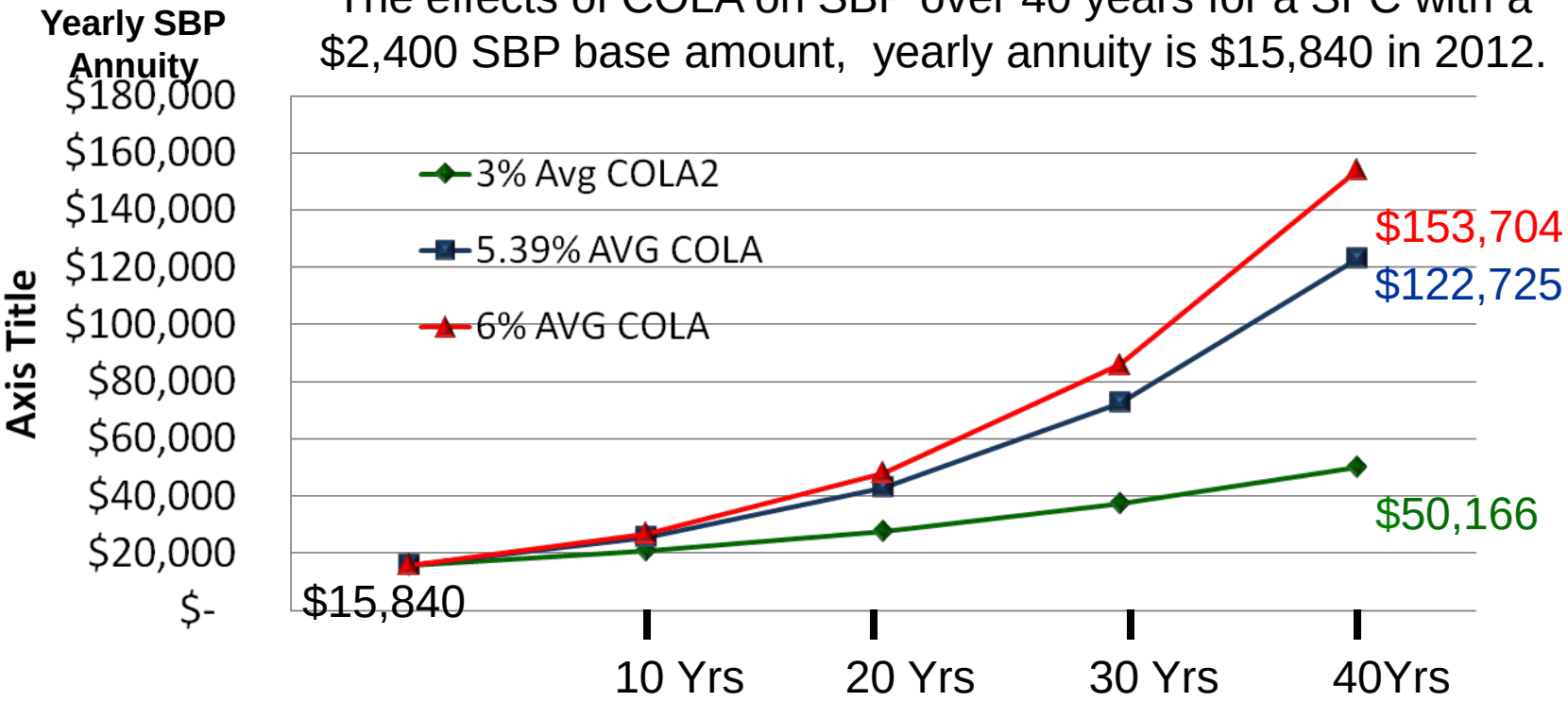
Death Year	*Spouse Age*	*Insurance Proceeds*	*After-Tax SBP*
2032	60	$400,000	$53,278
2037	65	$174,943	$71,298
2039	67	$ 6,226	$80,111

- In this example , replaces SBP with insurance and dies after 20 years of retirement
- With inflation, SBP increases with COLA while insurance remains constant
- Assumes return on invested insurance of 5.75%, spouse lives to 84, and insurance replaces SBP
- With 3% COLA average, spouse's insurance proceeds run out at age 76
- With 6% COLA average, spouse's insurance proceeds run out at age 67

Note: Program available at www.dod.mil/actuary/, click on "SBP Programs."

SBP Cost of Living Adjustments (COLA)

The effects of COLA on SBP over 40 years for a SFC with a $2,400 SBP base amount, yearly annuity is $15,840 in 2012.



You pay in today's dollars for an SBP annuity paid in future dollars*

- 3% COLA represents current average inflation
- 5.39% COLA represents inflation average over previous 40 years
- 6% COLA represents moderate inflation

All calculations made using DOD Office of the Actuary tables
** SOURCE: US Dept. of Labor, Bureau of Labor Statistics

Years Required for Annuity to Exceed Premiums Paid for Spouse SBP

Length of time Premiums Paid	Years for Annuity to Exceed Premiums Paid
5 Years	8 Months
10 Years	1 Year, 1 Months
15 Years	1 Year, 6 Months
20 Years	1 Year, 10 Months
25 Years	2 Years, 2 Months
*30 Years	2 Years, 5 Months

***No further cost after 360 (30 years) premium payments and age 70)**
(Based on data provided by the DOD Actuary Office)

Medical Retirement SBP Considerations

- Soldiers being medically retired need to consider the following in their SBP decision
  - SBP and Dependency and Indemnity Compensation (DIC)
  - Special Survivor Indemnity Allowance (SSIA)
  - SBP coverage for survivors, if VA determines death is not service connected and DIC is not payable
  - Withdrawal from SBP based on a VA Total Disability Rating

SBP and Dependency and Indemnity Compensation (DIC)

- SBP and DIC
  - DIC is a tax free annuity payable to survivors only if retiree's death is determined by the VA to be service connected
  - SBP provides annuity if death is not determined to be service connected
  - Spouse SBP is offset dollar for dollar by DIC currently
  - SBP premiums are refunded to the spouse for any portion of SBP that is offset by DIC
  - Surviving spouse receives any portion of SBP that exceeds DIC
  - Based on a court case, a surviving spouse authorized both SBP and DIC will receive both if remarried after age 57

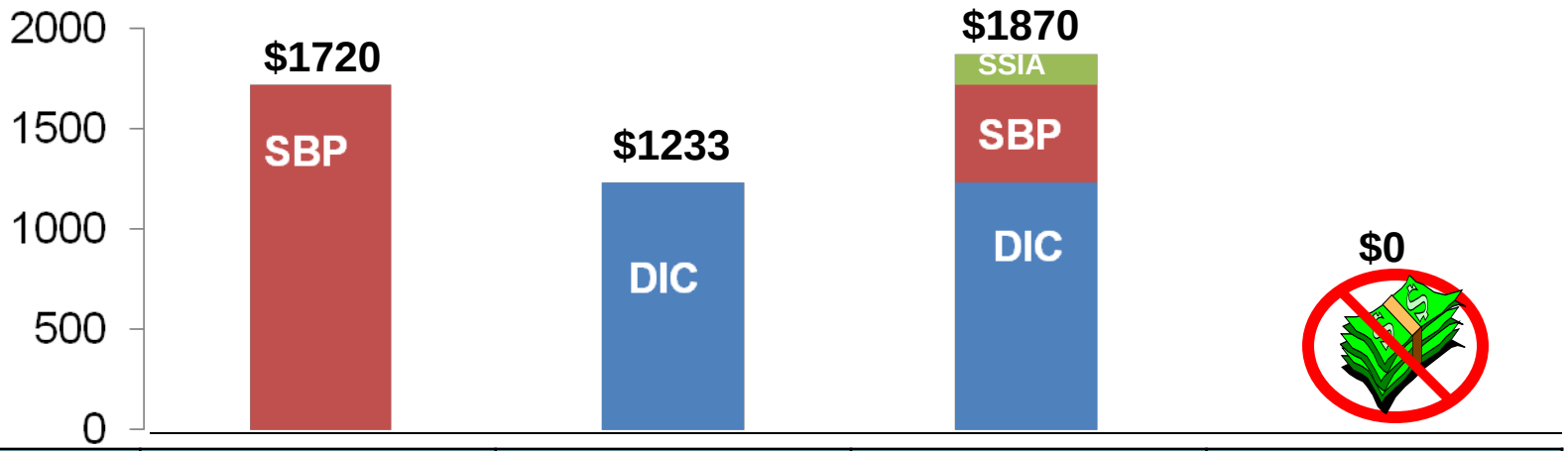
Special Survivor Indemnity Allowance (SSIA)

- SSIA is **only** paid to surviving spouses whose SBP annuity is fully or partially offset by DIC.
- SSIA will be paid to the surviving spouse if:
  - Receiving DIC
  - Receiving an SBP annuity either partially or completely offset by DIC
  - SBP offset by DIC is at least equal to the SSIA
- Payments will be paid in the following monthly amounts:
  - 2014, $150; 2015, $200; 2016, $275; 2017, $310
  - Ends 1 Oct 2017 unless extended by Congress

SBP/DIC Survivor Scenarios

Situation: Deceased retired SFC, 80% VA disability employable

Monthly VA/DOD Surviving Spouse Compensation



	Scenario 1	Scenario 2	Scenario 3	Scenario 4
SBP Elected?	Yes	No	Yes	No
Death Service Connected?	No	Yes	Yes	No
SBP/DIC Offset	No	No	Yes	No
SBP Annuity	$1720	No	$477	No
DIC Annuity	No	$1233	$1233	No
SSIA	No	No	$150	No
SBP Premium Refund?	No	No	Yes for portion offset by DIC	No

Withdrawal from SBP Based on VA Total Disability Rating

- You may withdraw from SBP, if you have a service-connected disability that has been rated by the VA as totally disabling for not less than **five continuous years** from the date of retirement --or– if awarded after retirement for **ten or more continuous years**.
- Withdrawal is allowed because surviving spouse will qualify for DIC benefits because VA will presume death is service-connected
- **SBP provides coverage for survivors when death not service connected**
- When a retire who withdrew for total disability dies, when VA verifies DIC will be paid, the surviving spouse receives a full refund of all SBP costs paid for portion of SBP offset by DIC

Note: If not rated by VA as totally disabled for the above timeframes, there is no guarantee VA will determine death is service connected and your survivors will receive DIC.

Payment of SBP Cost when Retired Pay is Completely Offset by VA Disability Pay

- If your VA disability compensation completely offsets your retired pay, there is no automatic deduction of monthly SBP premiums
  - Unpaid SBP premiums carried over into a new billing month will accrue a six (6) percent interest fee
- By submitting a DD Form 2891 (Authorization For RSFPP and or SBP Costs Deductions) to your servicing VA office, you can authorize VA to deduct your SBP premiums from your VA disability compensation and pay directly to the Defense Finance and Accounting Service or you can also pay SBP premiums by direct payment to the following address:

  Defense Finance and Accounting Service
  DFAS-CL, SBP and RSFPP Remittance
  P.O. Box 979013
  St. Louis, MO 63197-9013

- Do not submit an SBP premium direct payment or by submitting a DD Form 2891 to VA until DFAS provides a Retired Account Statement (RAS) informing you that your retired pay is offset by VA disability

SBP POSITIVES

- Government-subsidized plan
- Tax-free premiums
- Inflation-adjusted annuity
- Level-term plan annuity of 55 percent
- Age, **health**, smoking, sex, lifestyle -- not considered
- Flexible: can terminate between ret years 2-3
- “Paid-up” after 30 years paying premiums + age 70
- Survivors cannot outlive annuity
- Cost in today’s dollars; benefit in tomorrow’s dollars
- Can only be changed by Congress
- Income safety net; peace of mind
- Every active duty Soldier enrolled at no cost from Day One

Life's Certainties?

Civilians:

1--death

2--taxes

Retirees:

3--Can't outlive retired pay

Annuitants:

4--Can't outlive SBP annuity

You Be the Judge
Who Was Responsible?

"I think I should be able to receive my husband's Army pension to assist me in my everyday living expenses. He served this country for 20 years...in the Korean War & WWII. He was the recipient of the Purple Heart. ....If he were alive today he would still be receiving his pension…."

Actual Widows' Views on SBP

"....each day I thank my late husband for his taking SBP....it allows me to live with decency and independent of others...."

"….I want to thank the Army for sending me an annuity to live on. From the bottom of my heart I am so thankful. With no life insurance on my late husband, without the annuity, I could not live in the wonderful retirement community…."

HQDA's Advice To All Retiring Soldiers

"Do not forfeit SBP without having full knowledge of what you are giving up."

(Chief, Army Retirement Services Office)

For More SBP Information….

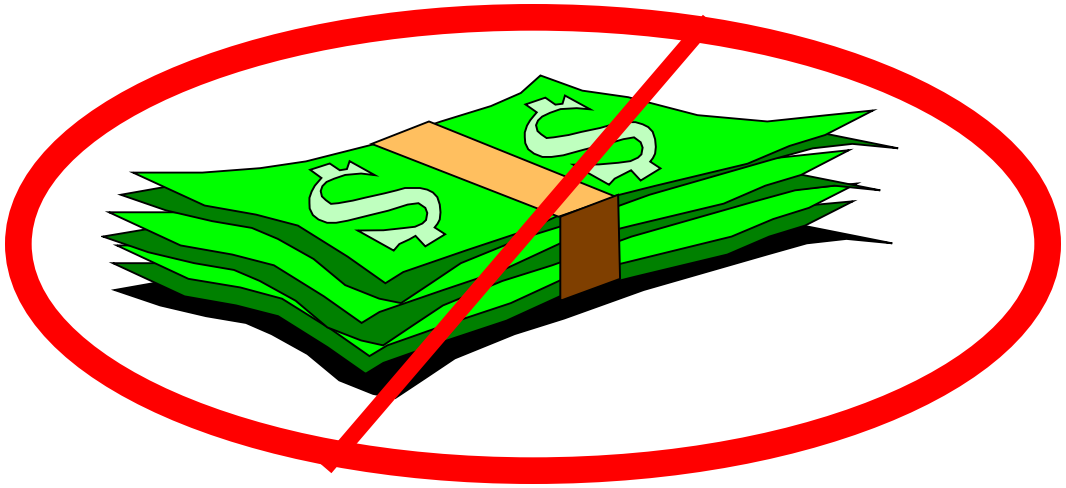
Log on to:

http://www.armyg1.army.mil/retire

Contact:

your nearest Retirement Services Officer (RSO)

REMEMBER
RETIRED PAY STOPS



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