

SURVIVOR BENEFIT PLAN

Security for Your Survivors

A PUBLICATION OF MILITARY OFFICERS ASSOCIATION OF AMERICA

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SURVIVOR BENEFIT PLAN

Why do 78% of officers participate in the Survivor Benefit Plan? Because SBP provides good value and a great way to pass on a portion of your military retirement benefits to your survivors. This guide will help you decide if SBP is right for your family—and help you choose the right coverage to meet your survivors' needs.

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MOAA — If you have more questions about SBP, the benefits experts at MOAA can help. Simply call **(800) 234-MOAA (6622)** or visit our Web site at **www.moaa.org**.

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SBP: Security for Your Survivors

The Survivor Benefit Plan (SBP) was created by Congress as a voluntary contribution program to provide protection for military retirees' survivors. Because your military retirement pay ends when you die—and statistics show that a large majority of military retirees are survived by their spouses—SBP provides a way for you to pass on a portion of your military retirement pay to your survivors.

Introduction to SBP

Although most of us put a great deal of time into planning for our retirement, it's also important to plan ahead to ensure our loved ones are taken care of after we die. Your military retirement benefits cease when you do, which could leave your family with insufficient resources to meet expenses.

The Survivor Benefit Plan (SBP) was created by Congress as a voluntary contribution program to provide protection for military retirees' survivors. Because your military retirement pay ends when you die—and statistics show that a large majority of military retirees are survived by their spouses—SBP provides a way for you to pass on a portion of your military retirement pay to your survivors.

Unlike life insurance, the SBP annuity is not a lump sum payment but a lifetime benefit to your eligible beneficiaries, providing a regular, reliable income that can't be maxed out. SBP holds several key advantages over alternative plans:

- Benefit amount increases regularly to keep pace with inflation
- Premiums are tax-deductible
- Premiums are subsidized by the federal government

When planning for your retirement, carefully consider the options you have under the SBP plan because it can affect the financial security of your survivors. This guide will help you assess whether SBP makes sense for you and how to calculate the impact SBP participation can have on you and your loved ones.

Important Changes to SBP

The National Defense Authorization Act (NDAA) of 2005 (P.L. 108-375, Oct. 28, 2004) contains some of the most important changes to SBP in years:

Ending the “Widow’s Tax”

Congress enacted major changes to the SBP in late 2004. The most significant change is the phasing out of the inequitable and benefit-reducing SBP “Widow’s Tax.”

Many military retirees signed up for SBP, assuming that benefits would stay fixed at 55% of retired pay. But benefits for many widows were cut drastically when they reached age 62 under a provision called the Social Security Offset. NDAA eliminates this offset over the next three years, raising the benefit level from the current 35% of retired pay to 55% (the maximum under SBP) by April 1, 2008.

The schedule for increases is as follows:

- 40% of the base annuity amount as of Oct. 1, 2005
- 45% of the base annuity amount on April 1, 2006
- 50% of the base annuity amount on April 1, 2007
- 55% of the base annuity amount on April 1, 2008

Retirees with the Supplemental Survivor Benefit Plan (SSBP)—a separate voluntary program designed to close the gap between regular benefits and the smaller benefits received by Social Security recipients after age 62—will retain their coverage levels but will no longer have to pay the extra premium.

Open Enrollment Starts October 1

NDAA also creates a one-year “Open Enrollment Season” starting Oct. 1, 2005 through Oct. 1, 2006 that allows retirees not enrolled in SBP to participate—provided they make a lump-sum payment covering all back premiums since date of first eligibility, plus interest.



To SBP or Not to SBP?

In general, SBP makes sense for most military retirees who are married and/or have children. But each situation is different and you should consider a number of factors before deciding whether or not to participate in the SBP and pay monthly SBP premiums.

Factors to Consider

Your Family's Needs

To make a properly informed decision regarding participation in SBP, you should start by first examining your needs—or, rather, the needs of your survivor(s). Take the time to sit down with your spouse and figure out how much income he/she would need to maintain the lifestyle you desire.

- What expenses will your survivors face?
- Will there be costs for a final illness, a funeral, and taxes that must be immediately paid?
- What about other debts?
- How will your family handle mortgage or rent payments, educational expenses, and ordinary living expenses?
- What is available immediately to meet those needs if you die?

The answers to these questions will tell you how much immediate income your family might require after you die and what they will need in the form of continuing, long-term income.

SBP doesn't provide large sums of immediate cash to pay bills that may exist upon your death, but it will supplement your existing assets and any life insurance lump-sum payment with funds for day-to-day expenditures. SBP can be invaluable

in the long term by providing a guaranteed continuing source of income that is regularly adjusted for inflation.

Review any assets you already have to see if they are sufficient to meet your spouse's income needs. If not, use SBP to make up the shortfall. If participation in SBP at the maximum level still does not provide the income needed, you may need to look at increasing your life insurance or other annuities to supplement the income.

Your Health

Your health history—and your spouse's—are very important considerations in your SBP decision. If you have a health problem when you retire, odds are that it will get worse, not better, as you get older. Unlike life insurance, which can be extremely expensive for people in poor health—and may be difficult to obtain at all—SBP coverage is available regardless of your health.

If you are in poor health and your spouse is in excellent health, it is very likely that your spouse will outlive you by a considerable number of years. Even if your spouse has a history of health problems, you should still consider enrolling in SBP, particularly if you are male and older than your spouse.

Unlike life insurance, the SBP annuity is not a lump sum payment but a lifetime benefit to your eligible beneficiaries, providing a regular, reliable income that can't be maxed out.

Two very favorable features of SBP:

- Payments can never run out.
- Payments keep increasing in tandem with the cost of living.

Family History

Your family health history should have a bearing on your decision. Is there a history of heart disease in your family? Do you come from a long line of ancestors who lived much longer than “normal” life expectancies? What about your spouse’s family history?

These factors should be a consideration in your SBP decision. Keep in mind, though, that this is only an indicator and doesn’t take into consideration events such as accidents or your own life history of diet, exercise, alcohol consumption, smoking, etc. In general, you will live about as long, or a little longer, than your parents and grandparents.

Spousal Employment History

- Is your spouse employed?
- If so, would he/she be able to support himself/herself without your retired paycheck?
- Is your spouse’s employment covered by a pension plan sufficient to cover living expenses?
- If your spouse is not employed, would he/she be able to earn an income sufficient to live comfortably after you die?
- Will your spouse have income other than Social Security after age 60?
- Would your spouse have an adequate income if he/she were to become totally disabled?

If you answered “No” to any of these questions, your spouse is at considerable financial risk if you were to die without sufficient planning. The beauty of SBP is that there is no maximum benefit—the annuity continues as long as your eligible beneficiaries live. And because benefits increase automatically with the same cost-of-living increases that apply to military retired pay, benefits keep pace with inflation.

If a surviving spouse is awarded a reduced (or partial) Social Security survivor benefit because of entitlement to a civil service pension as the result of his or her own employment, the Social Security Offset (SSO) applied against the SBP annuity will be based on the actual amount of the Social Security benefit determined to be payable to the surviving spouse.

The SSO will not be a greater amount than if the surviving spouse were not in receipt of a civil service pension (1986 CG decision B-219162).

Female Retirees

The same reasons that make SBP participation desirable for male retirees make participation debatable for female retirees—particularly at the maximum base amount. That’s because women’s life expectancies are approximately 4–6 years greater than men’s. This difference in life expectancies, combined with the fact that wives, on average, are two years

younger than their husbands, means male retirees can expect their wives to outlive them by a substantial number of years. According to the 1990 U. S. Census, of approximately 13 million surviving spouses in the United States, only 2 million are males.

Because of the above statistics, SBP for female retirees may not make as much sense, at least not if you're thinking of maximum coverage for your spouse. But if your husband is at least several years younger than you, SBP participation would be just as valuable to you as it is for a typical male retiree.

Even if you decline spouse coverage, you may want to consider participation in SBP for your children because this coverage is usually available at a minimal cost. Child-only coverage is normally an excellent value, especially if the child has a disability that would extend his or her eligibility to receive benefits.

Cost

SBP isn't free, of course, so cost should be one of your considerations. Like life insurance, SBP is a hedge against a potential outcome—your dying before your spouse dies. And like term life insurance, you may never “collect” on your investment.

But for most military retirees, the cost of premiums is more than offset by the benefits—and the peace of mind. There are several other factors you should take into consideration when evaluating the cost:

- **Premiums are paid with pretax dollars and are not included in your taxable income.** That means the real cost to you each month is actually less because the premium reduces your taxable income.
- **Premiums are subsidized by the federal government.** The formula is set so that the government covers 40% of the cost of premiums, with SBP participants paying the remainder.

SBP and Civil Service

If you elect SBP coverage and plan on becoming a federal civil service employee who could waive military retired pay for a combined military/civil service retirement payment, you will have the following SBP options at time of retirement:

- Drop SBP and elect civil service survivor plan coverage,
- Or keep SBP by declining civil service survivor coverage.

If you don't waive military retired pay, you can have survivor coverage under both SBP and civil service.

Dual Members of the Uniformed Services

Even if both you and your spouse are members of the uniformed services and you both qualify for retired or retainer pay, you may still need SBP although the need for spousal SBP coverage is lessened. SBP is still worth considering for child-only coverage and, depending on your situation, spousal SBP coverage to supplement uniformed services retired or retainer pay.

Alternatives to SBP

If you're like most people, you'll shop around looking to obtain the greatest benefit for the least cost. As you look at SBP and “alternatives,” sooner or later you'll compare SBP with life insurance. Insurance agents will tell you they have a program that can “beat” SBP. They don't. Many life insurance agents are trained in the sale of life insurance as alternatives to pension survivorship.

Life insurance is a viable alternative to many civilian pension survivorship plans in which annuities do not benefit from COLAs as SBP does. Additionally, the reduced pension a retiree receives in practically all civilian plans is permanent, regardless of whether the retiree's spouse dies first unless an additional premium

Do the Math

The Department of Defense (DoD) Office of the Actuary has developed four online tools to assist in selecting the appropriate level of SBP participation customized to the participant's unique circumstances. To access these tools online, visit www.moaa.org, go to the "Services" section and click on "Benefits & Pay."

- 1. SBP Premium** — The purpose of this program is to allow a military retiree to see what his or her monthly premium would be using different SBP base amounts. (www.dod.mil/actuary/program/sbppremium05a.xls)
- 2. SBP Probability** — This program is designed to show a new retiree the probability that his or her spouse will ever collect SBP benefits (i.e., will the spouse outlive the retiree?). The program uses mortality rates established by the DoD Office of the Actuary and approved by the DoD Retirement Board of Actuaries. (www.dod.mil/actuary/program/sbpprobability05.xls)
- 3. SBP Subsidy** — This program shows a retiree facing the decision of whether to elect SBP the value of SBP for his or her unique situation. SBP is a government-subsidized program, but because each servicemember's situation is different (age, gender, health, pay, etc.), that projected subsidy varies, and in some cases the benefit may be unsubsidized. The program also shows a prospective retiree the value of the benefit that the spouse would receive at different times that it might be paid. (www.dod.mil/actuary/program/sbpsubsidy05.xls)
- 4. SBP vs. Insurance** — This program shows a financial comparison between buying SBP at the time of retirement and purchasing a term life insurance policy at that time. (www.dod.mil/actuary/program/sbpinsurance05.xls)

What better testament to the value of SBP than the participation rates?

Survivor Benefits Plan (SBP) Participation rates of all military retirees on the rolls as of September 30, 2004. *Source: DoD Statistical Report on the Military Retirement System FY 2004 by the Office of the Actuary, DoD, RCS DD-P&R [MI] 1375*

	ARMY	NAVY	MARINES	AIR FORCE	TOTAL
All Enlisted	64%	51%	34%	58%	56%
All Officers	82%	76%	64%	78%	78%
All	69%	57%	42%	63%	62%

amount is paid. (Remember: With SBP, you pay premiums only as long as you have an eligible beneficiary, so if your spouse dies first or if you become divorced, the premiums can be suspended.)

Some retiring servicemembers mistakenly feel that the benefits provided by SBP are not worth the premiums. They may feel that they can provide greater benefits for their survivors through life insurance or other investments. Although it is certainly possible to provide the same benefits as SBP through these means, experts find that it is equally certain that it cannot be done for the same low cost.

This is not to say that you have to choose between life insurance and SBP. On the contrary, even though SBP is an unbeatable program, it

has no cash value features to borrow against in times of emergency. Remember that you pay plenty for the “cash value” of insurance—it’s really your money, after all. You can’t cancel SBP to get a cash refund, and it won’t provide large sums of immediate cash to pay bills that may exist upon your death.

Although SBP certainly can help in the long term, some type of savings or life insurance may be needed for emergencies or immediate expenses after your death. That is why many retirees supplement SBP with other programs. Life insurance is a valuable and necessary complement to SBP in building your estate, but life insurance can’t replace SBP.

Q: *My military husband died several weeks ago. As a retired officer since 1973, he had been receiving a monthly retirement check. Will I continue to receive this, will it be totally discontinued, or what?*

A: Your spouse’s military retired pay stops as of the date of death. The residual retired pay from the first of the month to the date of death is payable to the beneficiary designated by the military retiree. You will receive monthly survivor payments from the financial center if your spouse elected an annuity for you under SBP.

Summary

Taken alone, each of the above factors cannot determine whether a servicemember should enroll in SBP or not. But if the net effect of all of these factors is properly considered, SBP participation at some level, with some category of coverage, is advisable for just about everybody.

Myths & Realities

ABOUT SBP

Myth: Veterans' Group Life Insurance (VGLI) is superior to SBP.

Reality: You should treat VGLI just like any other type of life insurance. First, decide about SBP. Second, buy supplemental life insurance as needed, paying the fewest cents per thousand that you can from a reliable company. Look at prospective costs as you age and the cost during your first year of retirement.

Myth: The cost of SBP increases.

Reality: True, but relatively speaking, the cost remains constant. Retired pay, SBP costs, and SBP annuities are all increased at the same rate by the annual retiree COLA. Also important is the built-in government subsidy, or cost share, which is targeted at 60% retiree/40% government.

Myth: I can buy more insurance the first year cheaper than SBP.

Reality: The key phrase here is "the first year." What happens in the first year doesn't really mean much. The SBP decision is for a lifetime. The indexing of retired pay gives SBP a loss of value down the road, which term insurance can't offer. You can get a true picture of the long-term, extended costs and benefits by going to MOAA's Web site (www.moaa.org) and using the DoD Actuarial online tools to assist in selecting the appropriate level of SBP coverage.

Myth: SBP doesn't have cash value and I can't borrow against it.

Reality: True. When a product offers you a cash value buildup, you pay plenty for it. SBP is an income protection program that is often compared to term life insurance, which has no cash value. Term insurance is temporary protection purchased to protect a known risk for a known period of time. Its costs rise or the benefits decrease with age. SBP should, in fact, be likened to permanent increasing term protection at a constant relative cost, which cannot be outlived by the spouse recipient.

Myth: SBP is taxed as an annuity.

Reality: True. But remember this important feature: SBP premiums are tax-free. You realize the tax-free benefit as you pay because the premiums are deducted from your retired pay before taxable income is reported. This lowers your income tax obligation at a time when family income (and tax burden) is normally highest—as a couple. The annuitant's tax bracket typically is significantly lower than when the retiree was alive.

Myth: No money is returned to me if my spouse dies first.

Reality: True. But you have gotten what you paid for—protection—in the form of a degree of financial security for your spouse had you died first. Your auto insurer does not return premiums if

no accident occurs, and neither does your home insurer if no fire occurs. Why? Because you paid for protection as it was received. SBP is similar but also is tax-advantaged, government-subsidized, and inflation-adjusted.

If the possibility of getting no money back upon your spouse's death bothers you, there is one simple way to minimize or eliminate that—insure your spouse's life. In fact, you can use the tax savings offered by SBP to purchase such a policy.

Also, not to be forgotten is the fact that because SBP elections are "by category," the loss of your spouse suspends your costs until you remarry, at which time your previous coverage can be resumed at the same cost (6.5%). With a commercial product, the new spouse's particulars (age, health, and risk factors) would determine the cost of protection.

Myth: There is no residual estate for my children when my spouse dies.

Reality: True. SBP was never intended to be a legacy but a continuation of a portion of retired pay to a beneficiary, primarily a spouse. But eligible children can be designated as primary or alternate beneficiaries. If you wish, you can provide assets for a residual estate, using products designed for that purpose: insurance, savings, and investments.

Myth: Spouse costs are excessive when compared to benefits received.

Reality: Generally, all SBP costs are recovered through annuity receipt within three years of the retiree's death. Some commercial plans have a termination date—maximum period for which benefits will be paid. Others have a fixed starting date—a date before which no benefits will be paid. SBP has neither of these restrictions. One of the most important features of SBP is that it provides an annuity that cannot be outlived.

Consider these statistics based on a male retired officer, age 45, with a spouse aged 42. Approximately 40% of surviving spouses will survive 22 years following the retiree's death, 50% will survive 19 years, and 70% will survive 15 years. If no portion of retired pay continues (through SBP), it is likely there would be a period of time when the surviving spouse would have insufficient income to meet basic needs. SBP is guaranteed for a spouse's lifetime, however long.

Myth: SBP is rigid and cannot be tailored to meet my individual needs.

Reality: Whereas commercial plans require continual adjustment and review as the economy changes, SBP requires no review because of COLA-adjustment or retired pay. Tailoring to individual needs already was accomplished when the soldier's retired pay was established, because that is the product being protected. Because SBP is an extension of retired pay, the tailoring is built in and is enhanced by the tie to COLAs. Flexible, tailored plans for individuals often cause confusion and make comparison of two or more plans difficult.



ABCs of SBP

If you hadn't noticed already, SBP is a complex program. And many of the decisions you make when you enroll are irrevocable. This chapter outlines the basic step-by-step process for enrolling, choosing your beneficiaries and calculating your costs.

Enrolling in SBP

In general, the decision to elect SBP coverage must occur before the date of your retirement. (A special open enrollment period begins October 1, 2005 for retirees not previously enrolled in SBP. See right.)

If you are not married and do not have dependent children at the time you retire, you can enroll in SBP later. Just remember that you must file the SBP election within one year after your marriage or acquisition of a dependent child.

Changes After Retirement

Under some circumstances you can enroll in or make changes to your SBP election after your retirement:

- New dependents — If you acquire eligible children or grandchildren, you can add them to SBP.
- Divorce — You can terminate coverage for a spouse as a result of divorce — unless compelled to continue coverage by court order or divorce settlement.
- Death of spouse — Deductions are terminated if your spouse dies before you do.
- Remarriage — You can add a new spouse at any time.

Active Duty

Although you might not realize it, if you are currently on active duty and you're married or have dependent children, you are already benefiting from SBP.

Retroactive to Sept. 10, 2001, SBP was amended to benefit survivors of servicemembers who die on active duty. Survivors of those who die on active duty will be eligible for SBP, with the deceased servicemember treated as though they had retired on total disability. Total

Open Enrollment Starts October 1

The NDAA creates a one-year "Open Enrollment Season" starting Oct. 1, 2005 through Oct. 1, 2006 that allows retirees not enrolled in SBP to participate. Although final guidance has not been determined, based on the legislation and past open-enrollment periods, we know the following:

- One-time buy-in premium required
- Amount determined by date retiree first had eligible beneficiary
- Amount to include all back premiums, plus interest to the date of first eligibility
- Two-year survival clause; if retiree dies within two years of the effective date, premiums refunded to person who would have been the beneficiary

disability means the servicemember's retired pay would be 75% of basic pay with the SBP beneficiary drawing 55% of that amount.

This is a vast improvement over previous regulations. Before Sept. 10, 2001, servicemembers who died on active duty and had 20 or more years of service qualified for retirement pay equal to 50% of basic pay. The new law provides an even better deal for survivors of servicemembers who die with fewer than 20 years served, who previously received no portion of retired pay.

If the surviving spouse of an active duty servicemember has dependent children, the service secretaries, in consultation with the surviving spouse, may opt to have any dependent children receive the SBP annuity. Dependent children are also eligible to receive the SBP annuity when there is no eligible surviving spouse.

Coverage Options

OPTION A: Spouse-Only

A spouse married to the servicemember on the date of retirement is eligible for SBP on the date retired pay begins, with no length-of-marriage requirement.

If you are unmarried on the date of retirement but later marry, you may provide SBP coverage for the first spouse acquired after retirement. But you must notify the Defense Finance and Accounting Service (DFAS) **prior to the first anniversary of the marriage**. DFAS cannot honor a request received after the first anniversary of the marriage. The marriage must last for at least one year before the servicemember's spouse becomes eligible to receive the annuity. If you fail to elect SBP coverage for the first spouse acquired after retirement, and subsequently divorce or your spouse dies, you can't elect coverage for any subsequent spouse.

You also may elect coverage for a former spouse or former spouse with children. Please see page 16 for more information about this option.

Cost

Computing the cost of SBP is as easy as choosing your base amount, which may range from a minimum of \$300 up to a maximum of your gross retired pay. **The monthly cost is a flat 6.5% of the base amount.** Thus, if your base amount is \$1,000, your monthly cost would be \$65.00.

If you first became a member of the uniformed services before March 1, 1990, and your base annuity amount is less than \$1,320, you have the option of having SBP costs calculated under the original costing formula, calculated as follows:

BASE	MONTHLY ANNUITY	MONTHLY COST
\$1,320 x 55%=	\$726	\$85.80

The first \$616 of the base amount is at the rate of 2.5%. The remainder up to \$1,320 is at the rate of 10%.

BASE	\$1,320
FIRST	\$616 x 2.5% = \$15.40
REMAINDER	\$704 x 10% = \$70.40
TOTAL	\$85.80

Benefits

The amount of the monthly SBP annuity paid to your spouse in the event of your death is determined by the base amount you elect. The base amount is not the amount your spouse will receive; it is the amount used to compute the annuity. **The annuity payable in the event of your death is 55% of the base amount until your spouse turns age 62 and 35% of the base amount at age 62 or older.** This reduction (referred to as the "widow's tax") will be phased out by 2008.

SBP annuitants are not precluded from accepting assistance from other people in completing and filing annuity application forms. Consequently, there is no basis for objection to an agent under a power of attorney filing an annuity application form on a widow's behalf, with the request that benefit payments be made directly to her, provided she is not mentally incompetent (1986 65 CG 621).

OPTION B: Spouse and Children

Spouse and child coverage provides a way to ensure a monthly income for your surviving spouse, and if your spouse dies or remarries before age 55, an annuity to your eligible children until they become self-supporting.

SBP benefits for spouse and child coverage are paid to your surviving spouse. Payments would be made only to unmarried children if the surviving spouse is no longer eligible because of remarriage before age 55 or death. The annuity would be divided evenly between eligible children. See “Child-Only” coverage on page 17 for eligibility requirements for children to receive benefits.

Cost

The cost of SBP for spouse and children is the sum of the premium for spousal coverage and **an additional cost based on the ages of the youngest child and both spouses.**

For example, say you’re a 43-year-old lieutenant colonel who completed 20 years active service sometime after Oct. 1, 1985 and your monthly gross retired pay is \$3,396.50. Your spouse is two years younger, and you have three children, ages 10, 12, and 15. In this example the cost factor is .00023. Cost factors are established in tables available from the DoD. Assuming maximum coverage, multiply the base amount by the cost factor and you get the additional cost for child coverage.

Spousal Concurrence

Because your decision on SBP is of vital importance to both you and your spouse, the law requires you obtain your spouse’s concurrence in writing if you do not elect the maximum spouse coverage at the time of retirement.

If all requirements for an election needing the spouse’s concurrence have not been satisfied before retirement, full spouse costs and coverage will be implemented, regardless of any request by the servicemember to do otherwise. If spousal concurrence is not obtained as a result of some administrative error, the servicemember should request an administrative correction of records.

Spousal concurrence is not required if you elect to provide coverage for a former spouse or former spouse and child(ren). Spousal concurrence also is not required if you establish that you cannot determine your spouse’s whereabouts or that, because of exceptional circumstances, seeking the spouse’s concurrence would be inappropriate. Such exceptional circumstances are evaluated on a case-by-case basis. When a servicemember claims the spouse’s whereabouts are unknown, the servicemember must sign a statement to that effect.

BASE	MONTHLY ANNUITY	COST
Spouse only $\$3,396.50 \times 6.5\% =$	\$1,868.08	\$220.77
Children coverage: Cost factor .00023 $\times \$3,396.50 =$.78
TOTAL COST		\$221.55

If you first became a member of the uniformed services before March 1, 1990, and your base annuity amount is less than \$1,320 you can have SBP costs calculated under the original costing formula, explained as follows:

BASE	MONTHLY ANNUITY	COST
Spouse only $\$1,320 \times 55\% =$	\$726	\$85.80
Children coverage: Cost factor .00023 $\times \$1,320 =$.30
TOTAL COST		\$86.10

OPTION C: Former Spouse/Former Spouse and Child(ren)

You may elect to provide SBP coverage for a former spouse or former spouse and child(ren).

If you are currently married and elect SBP coverage for a former spouse, your current spouse must be notified but **spousal concurrence is not required**.

Many servicemembers assume that coverage will continue for their spouse if they divorce. But if you want to continue coverage for your now former spouse, you must convert your SBP election from spouse coverage to former spouse coverage within one year of the date of the divorce.

You also may be required to provide an annuity to the former spouse by court order, such as in cases of divorce, but only if you were already enrolled for spousal coverage under SBP. The benefit level for former spouse coverage has to remain the same as for spouse coverage. The court may not dictate a level of coverage greater or lower than that elected before the divorce, nor can the court order Supplemental SBP (SSBP) coverage to be elected.

The servicemember must, at the time of making the election for a former spouse, provide DFAS with a written statement. It must be signed by the servicemember and the former spouse, setting forth whether the election is made pursuant to the requirement of a court order or whether the election is being made pursuant to a written agreement entered into voluntarily by the servicemember as a part of or incident to a proceeding of divorce, dissolution, or annulment and, if so, whether such voluntary written agreement has been incorporated in, or ratified or approved by, a court order.

Cost

The cost for former spouse or former spouse and child(ren) coverage is set according to the same formula as spouse and spouse/child(ren) coverage.

OPTION D: Child-Only

Another option is to select coverage for your child(ren) only. This may be appropriate for retirees with school-age child(ren) and/or child(ren) who may be disabled or unable to care for themselves.

Since the cost is minimal, serious consideration should be given to this option even if you do not chose spousal coverage. A dependent child may be an adopted child, stepchild, grandchild, foster child, or recognized natural child (if the recognized natural child lived with the servicemember in a regular parent-child relationship.)

Before you elect this coverage, please note that once you elect child-only coverage, you cannot later add coverage for your spouse or former spouse.

Cost

The cost formula for the child-only coverage is based on your age and the age of the youngest child. If you are 43 and your youngest child is 10, the cost factor would be .0039. Cost factors are determined by the DoD. So if you selected the maximum base amount—\$3,396.30—you multiply this by the cost factor to arrive at the monthly premium of \$13.25 monthly.

Remember, deductions for child coverage stop when there is no longer an eligible child beneficiary.

To calculate the cost of premiums for your family, visit www.moaa.org, go to the “Services” section and click on “Benefits & Pay.”

Benefits

The annuity is always 55% of the base amount—it does not vary according to how many children you select as beneficiaries. It is not reduced by the amount of a child’s Dependency and Indemnity Compensation (DIC) entitlement (if eligible) nor is it reduced when a disabled child attains age 62.

- Proceeds are shared equally by all eligible children.
- Payments will be made to unmarried children until they reach age 18*.
- Payments will be made until age 22* for an unmarried child attending school full-time.

* For children whose birthday falls before July 1 or after August 31, benefits cease on July 1 of the year in which the child turns 22. For example, if your child’s birthday is November 18, his or her benefits would cease on July 1 of the following year.

Note: In all cases you must consider the impact of SBP receipt and income limits for other benefits such as Medicaid, supplemental security income (SSI), and related government benefits. Therefore, seek counsel from a qualified financial planner, attorney, etc. Contact MOAA’s Benefits Information Department for an information paper on this relationship of SBP to SSI.

Survival Rates of Spouses—

- **40% of the surviving spouses will live 22 years beyond the retiree’s death**
- **50% will survive 19 years**
- **70% will survive 15 years**

(Based on a male retired officer, age 45, with a spouse age 42.)

Third-Party Payments for Incapacitated Survivors

You may choose to establish a court-appointed guardian or a representative payee for your designated SBP beneficiary who is mentally or physically incapable of self-support (referred to here as an incapacitated annuitant).

There is no age limit for SBP payment to beneficiaries who are incapacitated children. Payments will be made to unmarried children who are mentally or physically incapable of self-support because of a condition that existed before age 18 (or before age 22 if in school full-time). For such children, the annuity remains at 55% for life. But in all cases, don't forget to consider the impact of SBP receipt and income limits for other benefits such as Medicaid, SSI, and related government benefits.

SBP payments are made to a court-appointed guardian only when the annuitant is incapable of managing his or her personal financial affairs. An annuitant is deemed "incompetent" if a determination of incompetence has been made by either a state court or by a physician or psychologist.

SBP annuities may be paid to a representative payee who is responsible for the annuitant's care, without requiring the payee to be appointed by a court. The representative payee is required to spend or invest the amount paid on behalf of the annuitant solely for the benefit of the annuitant. The representative payee has to certify this with periodic accounting of expenditures and investments unless the representative payee is a close family member or a government or financial institution.

A monthly fee of 4% of the monthly SBP annuity will be paid to the representative payee only if dictated by a court order. In cases where it appears necessary to protect the annuitant, the service secretary concerned may require the payee to provide a surety bond in an amount sufficient to protect the interests of the annuitant. The representative payee may pay for such bonds out of the SBP annuity.

Three other considerations should be noted under the child-only coverage option:

- If you add a new dependent child after all your other children have become ineligible for an annuity—and all premiums for their coverage have been terminated—the newly acquired child is eligible for an annuity even if you fail to notify the concerned financial center of the child’s existence. But you would be responsible for all delinquent premiums before annuity payments could begin.
- If you can document that a grandchild lives with you and is supported by you, that grandchild can qualify as a dependent child with certain limitations. This situation can become very technical. Discuss your specific situation thoroughly with the Defense Finance and Accounting Service in Cleveland, Ohio.
- If both you and your spouse are SBP participants, it is possible for your children to receive more than one SBP annuity if you both designate the child(ren) as your beneficiary.

OPTION E: Persons with Insurable Interest

What about SBP coverage for retirees who have neither spouse nor eligible

children? The “Persons With Insurable Interest” feature of SBP can be used to provide for a relative or other person.

The definition of a “person with insurable interest” is someone with a reasonable and lawful expectation of financial support from the continued life of the servicemember or a person having a reasonable and lawful basis founded upon the relationship of parties to each other, either financial or of blood or affinity, to expect some benefit or advantage from the continuance of the life of the retiree. **Proof of financial benefit** from the continuance of the life of the servicemember is required.

Examples of related persons with an insurable interest include:

- Parents, stepparents, grandparents, grandchildren, aunts, uncles, sisters, brothers, half-sisters, half-brothers, dependent or nondependent child or stepchild, or any other person more closely related than cousin.
- Unrelated persons such as a close business associate who would be financially affected by your death, such as a business partner, joint property owners, etc.
- A former spouse cannot be named as a beneficiary under this option.

Even if you are unmarried and don’t have eligible children, you can choose coverage for relatives such as sisters, parents, cousins, and grandchildren—or other parties such as business associates.

Other circumstances include:

- If you are unmarried, you may elect an “insurable interest” annuity under SBP for your dependent child.
- If you are unmarried, with adult children, you can elect insurable interest coverage for one of those adult children.

Note: An insurable interest beneficiary’s eligibility is not affected by that person’s age, student status, financial, or marital status. If you elect this coverage, you can change it to cover a spouse and/or children acquired after retirement.

Cost

The cost of insurable interest participation is considerably higher than the basic spouse-only cost. It is 10% of the gross retired pay plus an additional 5% of that pay for each full five years the beneficiary is younger than the retiree.

The total cost cannot exceed 40% of the retired pay. The annuity is 55% of the retired pay remaining after the cost has been deducted (there is no reduction at age 62 to 35%).

For example, if a 45-year-old unmarried servicemember has a sister age 42 and wants to elect SBP coverage for her, the chart below shows how the cost and annuity would be computed. (Keep in mind that the base amount is always gross retired pay.)

Changes

If you want to change your election to cover a newly acquired spouse or child, you must do so within one year after marriage or acquiring a child anytime during that year. A written request for this change should be submitted to the servicemember’s financial center or pay center.

You can cancel an insurable interest election. A written request for such withdrawal should be submitted to the servicemember’s financial center.

RETIRED PAY	\$3,396.50
COST	\$3,396.50 x 10% = \$339.65
BASE	\$3,396.50 - \$339.65 cost = \$3,056.85 \$3,056.85 x 55% = \$1,618.27
MONTHLY ANNUITY	\$1,618.27

Q: *When SBP coverage is terminated for a dependent child age 18 to 22 for school nonattendance, can that coverage be reinstated if the child resumes school attendance?*

A: Yes. Children older than 18 who are currently not attending school may become eligible for an SBP annuity at any time until they reach age 22 by undertaking a full-time course of study because children between 18 and 22 who are students should be regarded as eligible dependents for purposes of annuity coverage (1986 CG Decision B-221945).

Q: *I did not have any dependents when I retired three years ago, but I got married recently. Is my spouse eligible for SBP coverage, and if so, when must I apply?*

A: Yes. Your application must be filed with your financial center within one year of the date you were married.

Q: *My disabled wife is the designated beneficiary of my SBP annuity. She might need some assistance in filing the SBP claim. Do I need to be concerned with having a guardian appointed for her for SBP purposes?*

A: SBP annuitants should not be considered incompetent and in need of a court-appointed guardian to manage their annuity payments solely because they have a physical handicap or disability (1987 CG decision B-226018). For example, there is no basis for objecting to benefit payments being sent directly to an annuitant solely because of her impaired vision, because that alone would not render her incompetent to manage her personal financial affairs (1986 65 CG 621).

Summary

It's extremely important that you make your election carefully because some of the decisions you make are irrevocable and can't be changed later even if your circumstances change. For example, if you elect child-only coverage, you cannot later change your coverage to add a spouse or former spouse. Consider your options carefully and choose the plan that's right for you and your family.



Benefits of SBP

SBP is only one component of a sound financial plan, but its benefits can't be overlooked. SBP features two advantages that no alternative program can match—government-subsidized premiums and cost-of-living adjustments to the annuity.

Affordable Peace of Mind

In general, the annuity paid under SBP begins at the time of your death. The amount of the benefit is equal to 55% of the base amount you selected (your base amount is between \$300 and the maximum amount of your gross retired pay).

Benefits will be paid to your beneficiaries as follows:

- Spouse/former spouse—for life unless your survivor remarries before age 55.
- Dependent children—until age 18 or age 22 if enrolled as full-time students. Children must remain unmarried to receive benefit.
- Disabled/incapacitated children—no age limit but must remain unmarried.
- Parties with insurable interest—for life.

Increases in Benefits

What makes SBP so valuable compared to most civilian pension survivorship plans is that SBP benefits increase automatically with the same cost-of-living adjustments (COLAs) applied to military retired pay. COLAs are based on increases in the Consumer Price Index (CPI).

These adjustments are one of the biggest advantages of the SBP program because they boost the projected size of the annuity while you're alive—and your survivors will continue to see increases after you die even though you've stopped paying premiums!

If you die shortly after retirement, your surviving spouse could receive cost-of-living adjustment payments for 50 years or more. Lifetime payments from an original election to cover \$3,396.50 of retired pay could total more than \$2,600,000.

For example: You are retired and your gross retired pay is \$3,396.50 a month. You also have decided on spouse-only SBP coverage based on your gross retired pay. Assuming a 3% increase in retired pay has been authorized, the following chart illustrates COLA's effect on your annuity:

	BEFORE THE RAISE	AFTER 3% INCREASE IN RETIRED PAY
Base Amount	\$3,396.50	\$3,498.40
Monthly Annuity (Base amount x 55%)	\$1,868.08	\$1,924.12
Monthly Costs (Base amount x 6.5)	\$220.77	\$227.40

Just think—a monthly SBP annuity worth \$1,868.08 today will grow to \$8,189.47 a month in 50 years.

It's easy to see what a 3% increase in retired pay will do. In this example, a \$1,868.08 annuity is now worth \$1,924.12 a month. Of course, the monthly cost also increases slightly, but as you can see from the above example, a small increase in premiums yields a much larger gain in benefits.

Surviving spouses and/or children who are receiving SBP annuities get the same 3% increase. Just think—a monthly SBP annuity worth \$1,868.08 today will grow to \$8,189.47 a month in 50 years.

The chart below shows what can happen after retirement when inflation is a modest 3% per year. Retired pay is

increased periodically to keep pace with inflation and survivor payments generally are increased at the same time by the same percentage. These increases are made even after the servicemember dies.

In this example, the annuity at age 90 would be roughly four times the covered retired pay at age 40. This demonstrates two very favorable features of SBP:

- Payments can never run out.
- Payments keep increasing in tandem with the cost of living.

YOUR AGE	RETIRED PAY	COST OF SBP	55% MONTHLY ANNUITY	TOTAL YEARLY ANNUITY
40	\$3,396.50	\$220.77	\$1,868.08	\$22,416.90
45	\$3,937.47	\$255.94	\$2,165.61	\$25,987.33
50	\$4,564.61	\$296.70	\$2,510.54	\$30,126.44
55	\$5,291.54	\$343.96	\$2,910.40	\$34,924.80
60	\$6,134.46	\$398.74	\$3,373.95	\$40,487.41
65	\$7,111.52	\$462.25	\$3,911.33	\$46,936.01
70	\$8,244.20	\$535.87	\$4,534.31	\$54,411.70
80	\$11,079.51	\$720.17	\$6,093.73	\$73,124.77
90	\$14,889.94	\$967.85	\$8,189.47	\$98,273.58

Q: *I heard there was a court case that awarded SBP annuities to several surviving spouses because their spouse's service failed to notify them in writing that their spouses did not enroll in SBP. I believe I have a similar case. Can you advise me?*

A: In the case filed in the U.S. Court of Appeals for the Federal Circuit (Number 87-1077), *Ellen M. Kelly and Rosemary J. McCarthy vs. U.S.*, decided Aug. 14, 1987, federal circuit judges ruled that these widows of military retirees had not been notified of their husbands' elections not to participate in SBP and therefore were entitled to such SBP benefits. This ruling reaffirmed two similarly decided 1982 cases (*Barber vs. U.S.* and *Trone vs. U.S.*).

If you believe your circumstances are similar, please contact your financial center.

Important note: *The spousal notification requirement applies only to retirements that took place between Sept. 21, 1972 and Feb. 28, 1986. Additionally, claims for SBP annuities arising under Barber vs. U.S., but filed more than six years after the servicemembers' deaths, are barred by 31 U.S.C. section 3702 (b) under Hart vs. U.S.*

Summary

Cost-of-living adjustments are one of the biggest advantages of the SBP program because they boost the projected size of the annuity while you're alive—and your survivors will continue to see increases after you die even though you've stopped paying premiums!



Changing Your SBP Coverage

Although most SBP decisions are irrevocable, there are provisions for changes resulting from divorce, death and remarriage. This section outlines how you or your survivors can make changes to your SBP coverage after your initial enrollment.

Keeping Pace with Life's Changes

It is a retired servicemember's responsibility to notify the Defense Finance and Accounting Service, US Military Retirement Pay, PO Box 7130, London, KY 40742-7130, when the status of a beneficiary changes.

Notification, with supporting documentation, should be made immediately after the change occurs so the appropriate adjustment may be made to your retired pay account.

Examples of documentation include:

- Copy of death certificate when reporting death of former spouse.
- Copy of divorce decree and property settlement (if applicable) when reporting a divorce of former spouse.
- Copy of marriage certificate when reporting a remarriage of former spouse prior to age 55.

Death of Spouse or Divorce

Deductions from your retired pay continue as long as you have an eligible beneficiary for the annuity. Deductions from your retirement pay will be discontinued if your spouse dies before you do, you are granted a divorce, or your marriage is annulled.

To stop the SBP deduction, you need only send a copy of the death certificate or divorce or annulment decree to your financial center together with a cover letter providing your complete name, Social Security number, and an explanation of your request.

Remarriage

If you remarry, your new spouse automatically assumes the same SBP coverage that was in effect for your previous spouse on the first anniversary of the remarriage. For personnel remarrying on or after March 1, 1986, the retiree has the option not to provide coverage for the new spouse. The servicemember's new spouse must be notified, and the option must be exercised within one year after remarriage.

Liability for deductions from retired pay begins one year after the remarriage, at which time the new spouse becomes an eligible beneficiary. An earlier date applies if a child is born of that marriage. If you remarry your former spouse and your former spouse was your spouse at retirement or before March 21, 1974, the one-year wait is not applicable, and costs for coverage are effective with the date of remarriage.

Within one year of remarrying, a person who has spouse or spouse-and-child(ren) SBP coverage at less than maximum level can increase the level of coverage to 55% of the gross military retired pay of that person.

If coverage is increased, the servicemember must pay the difference, with interest, between the amounts of SBP costs that would have been incurred if this level of coverage had been elected originally.

To update or make changes to your SBP coverage, contact:

**Defense Finance and Accounting Service,
US Military Retirement Pay**

**PO Box 7130
London, KY
40742-7130**

**Toll-Free
1-800-321-1080**

In this situation, if you've elected spouse-and-child(ren) coverage, the additional cost will be discontinued when the youngest child reaches age 18, or age 22 if an unmarried student.

The same rule applies if you elected child(ren)-only coverage. Simply send a note to your financial center when you no longer have a child eligible for SBP benefits. Also, if you have combined spouse-child(ren) coverage and are divorced, or your spouse dies, the cost for the child(ren)'s coverage (if still eligible) will be recalculated. That might result in a higher premium rate for their coverage. But the total premium rate will be much less because the spouse is dropped from coverage.

Revoking Coverage for Former Spouse

A servicemember who elects to provide an annuity to a former spouse or to both a former spouse and dependent child may, subject to statutory rules summarized below, change that election and provide an annuity to his spouse or dependent child. In all cases, the servicemember is required to notify the former spouse of any such change in an SBP election.

If the servicemember's previous election of SBP coverage for the former spouse (or to both a former spouse and dependent child) was made pursuant to a court order or if a servicemember enters into a written agreement (whether voluntary or required by a court order) to make such an election and the agreement has been incorporated, ratified, or approved by a court order, **the servicemember or former spouse must furnish a certified copy of the court order to the financial center within one year from the date of divorce.**

If the servicemember's previous election of SBP coverage for the former spouse was made pursuant to a written agreement with the former spouse entered into as a part of or incident to a proceeding of divorce, dissolution, or annulment, but the agreement has not been incorporated, ratified, or approved by a court order, the servicemember must furnish a statement signed by the former spouse certifying the former spouse's agreement to the change in the election to the financial center. Such a change can be done only with the former spouse's written concurrence.

Remarriage of Former Spouse

If your former spouse remarries prior to age 55, both coverage and premiums are suspended. But this only suspends your obligation while your former spouse is remarried. You cannot terminate former spouse coverage or change your beneficiary to spouse and/or child coverage based solely on the former spouse's remarriage.

To suspend coverage and premiums because of the former spouse's remarriage prior to age 55, the servicemember must include a copy of the former spouse's marriage certificate with notification to DFAS. Former spouse costs will be suspended on the first day of the month after the date the former spouse remarries.

If former spouse coverage and premiums were suspended as a result of the former spouse's remarriage prior to age 55, and the remarriage terminates, former spouse coverage is reinstated the day after the date of the termination of the remarriage, and costs for former spouse coverage are reinstated effective the first day of the month after the date the former spouse's remarriage terminates. The servicemember must provide DFAS a copy of the former spouse's divorce

decree or the death certificate of the person to whom the former spouse was married.

If the servicemember dies during the period the former spouse coverage is suspended because of the former spouse's remarriage before age 55, the former spouse would be eligible for the annuity if the remarriage subsequently terminated.

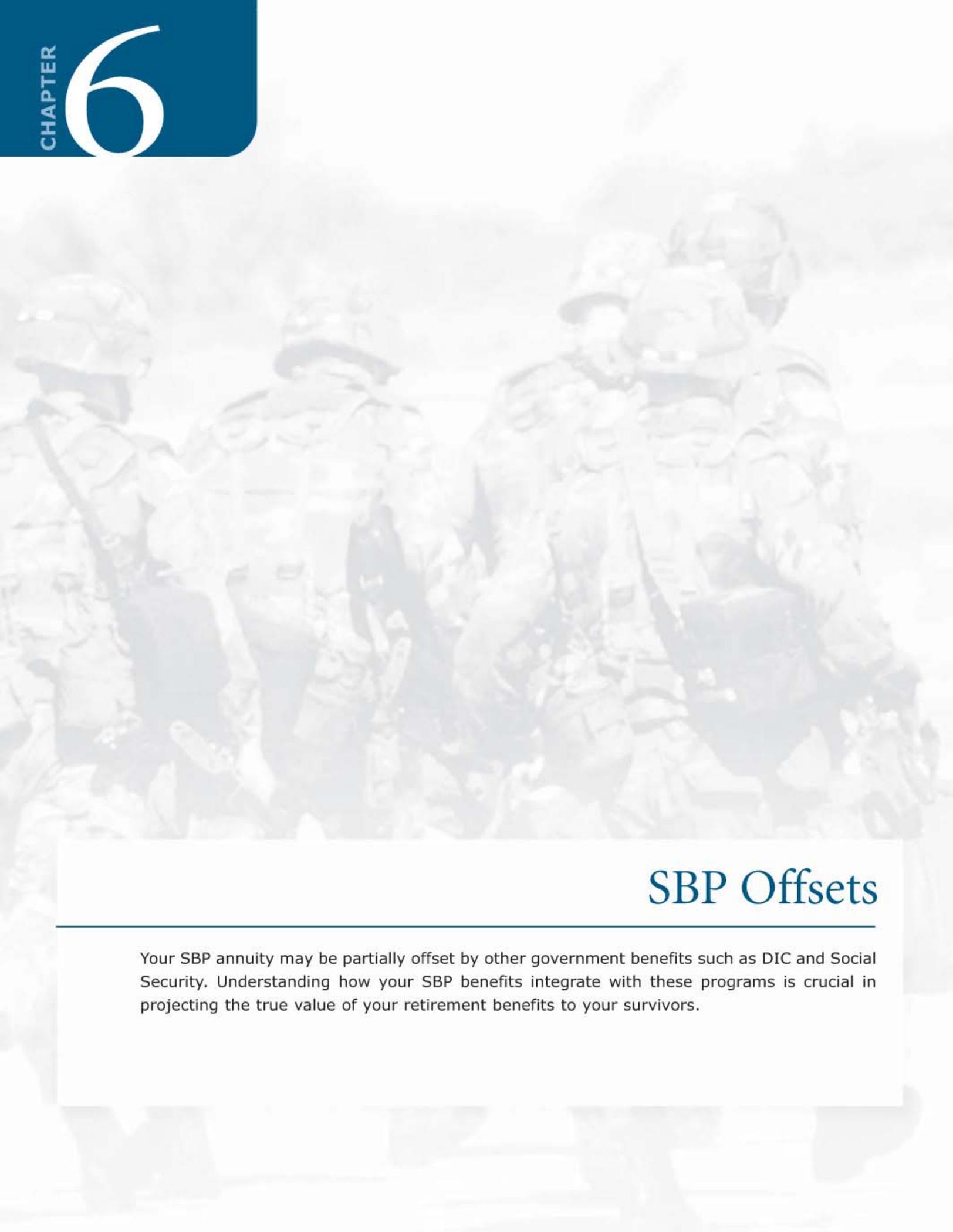
A former spouse's remarriage at age 55 or older does not affect either former spouse coverage or premiums because the former spouse remains eligible to receive the annuity immediately in the event of the servicemember's death.

Q: *I recently divorced my spouse. How do I stop SBP deductions from my retired pay? If I decide to remarry, when will my second spouse be eligible for SBP?*

A: First, send a copy of the divorce decree to your financial center. (In the event of a spouse's death, send a copy of the death certificate.) This will cause your SBP deductions to stop. Upon remarriage, your spouse will be an eligible beneficiary after you are married one year (or earlier, if you have a child together). But after March 1, 1986, a remarrying retiree has the option of not resuming SBP coverage. Your new spouse must be notified of the non-election and this option must be exercised within one year after remarriage. If you do not notify the financial center of your remarriage, your new spouse will resume the same coverage you had elected for your previous spouse, and you will be liable for SBP deductions starting from the first anniversary date of your remarriage.

Summary

Most SBP elections cannot be changed or modified once an application has been processed. Deductions from your retired pay continue as long as you have an eligible beneficiary. It is the servicemember's responsibility to give proper notice in a timely manner if the status of a beneficiary changes.



SBP Offsets

Your SBP annuity may be partially offset by other government benefits such as DIC and Social Security. Understanding how your SBP benefits integrate with these programs is crucial in projecting the true value of your retirement benefits to your survivors.

Other Government Programs and SBP

Dependency and Indemnity Compensation (DIC) Benefits

The Department of Veterans Affairs (VA) pays a benefit called Dependency and Indemnity Compensation (DIC) to a surviving spouse and dependent children if a servicemember dies of a service-connected cause. This includes deaths while on active duty or later due to an injury or disease contracted while the servicemember was on active duty.

DIC is important whether or not you're enrolled in SBP. It is tax-free compensation to a surviving spouse, not a pension for the needy. It's not connected with any kind of an earnings test. It is payable to a surviving spouse regardless of any other income.

If you have any indication of a service-connected disability, you should arrange for a VA evaluation at the time of retirement. It is important that any kind of service-connected condition be made a matter of record. It will make things much easier for your survivors if a claim for DIC is possible.

DIC Benefits

The basic DIC amount, effective Dec. 1, 2004, is \$993 per month, plus:

- \$247 for each child younger than 18.
- \$250 monthly DIC payment for the first two years after the death to any survivor who has at least one child in the household.
- \$213 per month to surviving spouses of servicemembers rated totally disabled as a result of their service-connected disabilities for a continuous period of at least eight years preceding death.
- \$247 if a surviving spouse requires aid and attendance or is a patient in a nursing home.
- \$118 if the surviving spouse is housebound but not eligible for aid and attendance.

Surviving spouses awarded DIC will be paid as long as they live. But should remarriage by a surviving spouse occur before age 57, the annuity will end. But if and when that remarriage terminates, the annuity would again be payable. If remarriage occurs on or after age 57, the annuity continues uninterrupted.

DIC is a monthly benefit paid to eligible survivors of a:

- Military servicemember who died while on active duty, OR
- Veteran whose death resulted from a service-related injury or disease, OR
- Veteran whose death resulted from a non-service-related injury or disease, and who was receiving, or was entitled to receive, VA compensation for service-connected disability that was rated as totally disabling:
 - for at least 10 years immediately before death, OR
 - since the veteran's release from active duty and for at least five years immediately preceding death, OR
 - for at least one year before death if the veteran was a former prisoner of war who died after September 30, 1999.

The VA determines who is eligible for DIC. This benefit is not automatic. An application form has to be submitted to the VA. The VA can be contacted at **1-800-827-1000** for more information.

WORKSHEET 1

SBP—DIC Offset: Spouse-Only Coverage for an Active Duty Death

If SBP awarded to surviving spouse with no children while also eligible for DIC payments

Base Pay: \$ _____

Base Pay x 75% = Retirement Pay: \$ _____

Retirement Pay x 55% = SBP Annuity: \$ _____

SBP Annuity - \$993 (DIC) = SBP-offset Annuity: \$ _____

SBP-offset Annuity: \$ _____ +

DIC: \$ 993.00 =

MONTHLY TOTAL: \$ _____

Note: The law offsets SBP dollar-for-dollar by DIC and DIC is tax-free income.

Reduction in SBP

Your survivor's SBP annuity will be reduced by Dependency and Indemnity Compensation (DIC) payments so that the total amount received from both SBP and DIC programs totals 55% of retirement pay.

If the surviving spouse applies for DIC within the first year of death and is awarded DIC, then the surviving spouse will receive a cash refund from DFAS for the SBP premiums being offset by DIC.

If the DIC offsets the SBP entirely, then the surviving spouse would receive 100% of the SBP premiums paid into the program. If the DIC offsets the SBP payments by 50%, then the surviving spouse would receive 50% of the premiums paid into the program. The refund amount is considered taxable income if the deductions for SBP premiums were deducted from your retired pay.

Military Pay Regulation (DoD 7000.14-R) stipulates that when a claim for DIC is not filed by the surviving spouse within one year after the servicemember's death and the surviving spouse receives an SBP annuity, no refund of SBP costs is made if DIC is awarded later.

There is no reduction of the SBP annuity for DIC paid on behalf of dependent children and there is no reduction for annuitants who were married to more than one deceased military spouse and entitled to DIC and SBP on separate spouses' plans.

Remarriage

What effect does remarrying have on SBP and DIC for your surviving spouse?

- If your surviving spouse remarries prior to age 55, the SBP annuity is suspended.
- If your surviving spouse remarries prior to age 57, DIC is suspended.
- A surviving spouse who remarries prior to age 55 loses both SBP and DIC. Remarrying after age 57 means both DIC and SBP remain intact.
- If a surviving spouse entitled to both SBP and DIC remarries at age 56, the surviving spouse loses entitlement to DIC but maintains SBP. If this happens, the SBP annuity can be reinstated to the amount that would have been in effect had the DIC not been awarded.

But if the surviving spouse received a refund of SBP premiums, the surviving spouse must repay any cost premiums refunded before any adjustment can take place. The full SBP annuity is payable when DIC terminates and not after the refund has been paid back. A surviving spouse can repay the refund cost premiums in either a lump sum or in installments. If the surviving spouse elects to make repayments in installments, those installment payments will be deducted from the SBP annuity payable.

If your SBP annuity is greater than DIC, you must weigh carefully the decision to suspend SBP participation. Chances are you will want to continue SBP participation if the SBP annuity is significantly larger than DIC.

SBP and Taxes

Income Tax

First, the good news: The cost of SBP premiums is exempt from federal income tax—and in nearly every state, from state income taxes. Consequently, the taxable portion of your retirement pay is reduced by your SBP deductions.

Now the bad news: Annuity payments to your survivor(s) will be fully taxable by the federal government, including any refund of SBP costs due to receipt of DIC. Of course, every penny that you ever receive from the Military Retirement System is taxable income.

When you choose SBP, you are electing to receive reduced retired pay to provide your spouse a benefit payable if you die first. And, like other forms of retirement savings, it's usually more advantageous to deduct the cost of premiums now when your overall tax rate is higher and then pay taxes on the annuity later when your survivor's income—and tax rate—will be smaller.

There are several exceptions that may apply to you:

- If you choose to pay your monthly cost of SBP by direct remittance, the tax effect works in reverse. Your full retirement pay will be treated as taxable income now and you cannot deduct the cost of premiums. But upon your death, the annuity will be exempt from federal income tax until your annuitant recovers the total of your direct payments.
- If you have waived military retired pay and authorized the VA to deduct SBP costs from VA compensation, you can't deduct the cost of premiums. The annuity should be exempt from federal income tax until the annuitant recovers the total of direct payments made.

- If you have waived military retired pay in favor of another federal benefit and continue your SBP participation by making direct cost payments each month, the annuity will be exempt from federal income tax until the annuitant recovers the total of your direct cost payments.

At the end of each year, your financial center will send your survivor an Internal Revenue Service (IRS) Form 1099R, which will show the amount of the annuity paid. It also will show the amount withheld for tax purposes.

Federal Estate Tax

Before 1982, SBP annuities were specifically excluded from federal estate taxes. But the estate taxation of an SBP annuity now depends on when the servicemember retired from the armed forces, the type of annuity election made, whether changes have been made to the SBP election, and whether the value of the SBP annuity exceeds the unified credit (\$555,800 for 2005; Applicable Exclusion amount for 2005 is \$1,500,000).

Please consult with your tax advisor to see if estate taxes might apply in your situation.

Federal Gift Tax

The election upon retirement by a retiree to provide for a survivor benefit annuity is not considered as a transfer subject to the gift tax in which the election is made under the retirement plan described in Chapter 73 of Title 10 of the U.S. Code.

But if any portion of the value of the survivor annuity is attributable to amounts paid or contributed (deposits) by the military servicemember under sections 1438 or 1452(d)—both dealing with periods of time that a retiree was not entitled to retired pay—such portion is treated as a gift and is subject to the federal gift tax.

WORKSHEET 2

SBP—DIC Offset: Scenario 2

If SBP awarded to surviving children and DIC awarded to surviving spouse

Note: There is no SBP-DIC offset if SBP awarded to surviving children and DIC awarded to surviving spouse. SBP is awarded to unmarried surviving children until the age of 18, or between 18 and 22 if attending school full-time. DIC is awarded to surviving children until the age of 18, or between the ages of 18 and 22 and attending school full-time. DIC is tax-free.

Base Pay: \$ _____

Base Pay x 75% = Retirement Pay: \$ _____

Retirement Pay x 55% = SBP for Surviving Children: \$ _____

\$247** x # of Children = DIC for Surviving Children: \$ _____

SBP for Surviving Children: \$ _____ +

DIC for Surviving Spouse: \$ 993.00 +

DIC for Surviving Children: \$ _____ =

MONTHLY TOTAL: \$ _____

****Add \$250 per child for first two years.**

WORKSHEET 3

SBP—DIC Offset: Scenario 3

If SBP awarded to surviving spouse and DIC awarded to surviving children

Note: The law offsets SBP dollar-for-dollar by DIC. SBP is awarded to unmarried surviving children until the age of 18, or between 18 and 22 if attending school full-time. DIC is awarded to surviving children until the age of 18, or between the ages of 18 and 22 and attending school -full-time. DIC is tax-free.

Base Pay: \$ _____

Base Pay x 75% = Retirement Pay: \$ _____

Retirement Pay x 55% = SBP for Surviving Spouse: \$ _____

SBP for Surviving Spouse - \$993 (DIC) = SBP-offset Annuity: \$ _____

\$247** x # of Children = DIC for Surviving Children: \$ _____

SBP-offset Annuity:	\$ _____	+
DIC:	\$ <u>993.00</u>	+
DIC for Surviving Children:	\$ _____	=
MONTHLY TOTAL:	\$ _____	

****Add \$250 per child for first two years.**

Nonresident Alien SBP/RSFPP Tax

Nonresident alien SBP beneficiaries living in foreign countries are subject to a U.S. government withholding tax on their monthly SBP payment. The withholding tax rate is 30% of the payable annuity and is not refundable.

But tax treaties with some countries can reduce this 30% tax rate. The IRS has determined that the payment of SBP is not subject to federal income tax withholding (FITW) if the payment is to a person who resides in and is a citizen of a country that has an income tax treaty with the United States. The countries with these tax treaties are Australia, Belgium, Cyprus, Egypt, Finland, France, Germany, Iceland, Italy (if an Italian national), Korea, Morocco, the Netherlands, Norway, Pakistan, Romania, Tobago, Trinidad, and the United Kingdom.

To secure the benefit of a reduced rate of FITW, or exception to FITW, based upon a treaty or tax convention, the person concerned must file TD Form 1001, "Ownership, Exemption, or Reduced Rate Certificate."

State Income Tax and State Inheritance/Estate Taxes

Whether your survivor's SBP annuity is subject to state income tax depends on the laws of the taxing state. Inheritance, gift, or estate tax laws vary from state to state. Contact your state tax authorities for information.

Social Security Offset (SSO)

Of all the features of SBP, the Social Security Offset (SSO) is the most misunderstood and confusing to SBP recipients. SBP was first formulated in 1972, when Congress decided that SBP would function as a supplement during the gap period before the surviving spouse became eligible to receive Social Security's surviving spouse benefits.

The SBP annuity would pay a benefit until the surviving spouse became eligible for Social Security's surviving spouse benefits. Although a surviving spouse's Social Security eligibility can begin as early as age 60 (age 50 if disabled), Congress decided that starting at age 62, SBP payments would be reduced to 35% of military retired pay.

Note: If a servicemember retired before January 1, 1957, and did not contribute to Social Security during his or her military career, there is no reduction to his or her surviving spouse's SBP.

Phase Out of the SSO

The 2005 NDAA will phase out and eventually eliminate the Social Security Offset over the next three and a half years. The benefit will rise from 35% of retired pay to:

- 40% of retired pay on October 1, 2005
- 45% of retired pay on April 1, 2006
- 50% of retired pay on April 1, 2007
- 55% of retired pay on April 1, 2008

WORKSHEET 4

Two-Tier Offset Method

Base Annuity Amount: \$ _____

Prior to age 62, Base Annuity amount x 55% = SBP Monthly Annuity: \$ _____

After age 62, Base Annuity Amount x 35% = SBP Monthly Annuity: \$ _____ *

Oct. 2005, Base Annuity Amount x 40% = SBP Monthly Annuity: \$ _____ *

Apr. 2006, Base Annuity Amount x 45% = SBP Monthly Annuity: \$ _____ *

Apr. 2007, Base Annuity Amount x 50% = SBP Monthly Annuity: \$ _____ *

Apr. 2008, Base Annuity Amount x 55% = SBP Monthly Annuity: \$ _____

Higher of either servicemember's or spouse's Social Security benefit: \$ _____ +

SBP Monthly Annuity: \$ _____ =

MONTHLY TOTAL: \$ _____

** Those grandfathered under the "Social Security Offset Method" always will receive the higher of either the "Two-Tier" or "Social Security Offset Method."*

Calculating Your SSO

The amount a surviving spouse's SBP annuity is reduced (his or her SSO) depends on the retiree's year of birth and the active military service performed after Dec. 31, 1956, which is determined by Social Security wage credits earned during active service (including ACDUTRA) after 1956.

Social Security wage credits earned through civilian employment after Oct. 22, 1972 have nothing to do with the SSO reduction. These credits will add to you and your spouse's Social Security benefits but will not affect the SBP offset. The SSO is based only on the calculated value of military-earned wage credits.

If a military retiree received Social Security retirement benefits before age 65, the resulting reduction in Social Security benefits is taken into account when calculating the SSO (1983, CG B-203393).

A surviving spouse can request in writing that your financial center check your SSO calculation. Requests should include the following statement: "In accordance with Social Security Administration Publication No. 68-0301702, May 30, 1984, paragraph RS 01702.382, please provide me with a statement indicating whether my Social Security survivor benefit (surviving spouse) has been reduced because of the Reduction in Benefit Limitation (RIBLIM) owing to my deceased spouse's early receipt of nondisability retirement benefits. Include with this statement the amount of the applicable death primary insurance amount and my death benefit amount (DMBA)."

All requests must include the name of the servicemember and the annuitant as well as the Social Security number for each person. A copy of the statement from the Social Security office should be sent by the surviving spouse to the financial center, which will recompute the offset and make an adjustment, if applicable.

To apply for this refund, the reservist must provide copies of federal tax returns and an affidavit attesting to receipt of the Social Security tax refund. We recommend that all reservists who might be affected by this: (1) execute the affidavit statement, (2) place a copy of the SBP election form with both the statement and the applicable tax returns, and (3) provide the spouse with written instructions to submit the documents with the annuity application when the reservist dies.

Note: The exemption noted above does not apply to any ACDUTRA on or before Dec. 1, 1980. Such periods are fully subject to the offset. Also, Social Security wage credits for reserve drills performed on or after Jan. 1, 1988, are included in the offset calculation.

Grandfathering

Public Law 99-145, effective March 1, 1986, authorized the Two-Tier method for computing annuities (55% before age 62 and 35% after age 62), which increased annuity values for the majority of survivors over age 62. All SBP annuitants whose military spouses were retired or retirement-eligible on or before October 1, 1985 were "grandfathered" into the Two-Tier method if the SBP annuity would be greater under the Social Security Offset calculation.

The 2005 NDAA will phase out and eventually eliminate the Social Security Offset over the next three and a half years. The benefit will rise from the current 35% of retired pay to:

- **40% of retired pay on October 1, 2005**
- **45% of retired pay on April 1, 2006**
- **50% of retired pay on April 1, 2007**
- **55% of retired pay on April 1, 2008**

Q: *My husband retired in 1984 and died in 1990. I worked until age 65 in 1996 and then applied for Social Security survivor benefits. My SBP was reduced, but at a greater amount than expected. Since my husband retired in 1984, I assumed that I would receive the annuity of greatest value either under the offset methodology or the two-tier. For me, the two-tier gave me a higher annuity, but the offset method was used in my case. Why?*

A: The effective date of the two-tier computation was May 1, 1993 (when you turned age 62), and the effective date of your status change was April 1, 1996 (when you began receiving Social Security at age 65). Because your status changed after the two-tier computation was made and was not retroactive to May 1, 1993, your annuity cannot be computed again under the two-tier (35%) system. Your annuity must now remain at 55% of the base amount less an SSO. If the SSO is more than 40% of the gross annuity, the offset will be set at 40%.

Q: *I receive an SBP annuity. Is it subject to federal income tax, and if so, how do I arrange for a monthly tax withholding from my payment?*

A: Yes. Obtain Form W-4P from any IRS office, fill it out, and send it to your financial center.

Q: *I am contemplating remarrying my former spouse. I enrolled previously in SBP with her as my beneficiary. Will she have to wait a year before she can return to being considered eligible beneficiary?*

A: Whenever a servicemember ceases spousal coverage, there is a one-year waiting period regardless of whom they remarry. This spouse would not qualify as an eligible spouse beneficiary until the first anniversary of the remarriage or the date such spouse becomes the parent of a child by the remarriage.

Q: *I wanted to provide my former spouse with SBP coverage and incorporated this into the final divorce decree. My former spouse subsequently remarries. Can I provide SBP coverage for my current spouse if the former spouse remarries or dies?*

A: There are two answers:

1. Former Spouse Remarries: When SBP election was incorporated into provisions of the divorce settlement or into a written agreement between the servicemember and the former spouse: if your former spouse remarries on or after age 55, SBP beneficiary designation continues. If your former spouse remarries before age 55, SBP beneficiary designation is suspended and can be reinstated only if that second marriage ends in death at any age or divorce at age 55 or later. If all was purely voluntary with no written commitment, the SBP beneficiary designation can be cancelled for the former spouse and the military member can elect SBP beneficiary designation for his or her new spouse.

2. Former Spouse Dies: The finance center will honor a request for SBP beneficiary designation for a current spouse if the former spouse SBP beneficiary dies, under Section 642 of P.L. 105-85.

Q: *I am a reserve officer with only ACDUTRA after February 1981. Will my beneficiary's SBP payments be subject to any SSO?*

A: SBP annuities are reduced in the cases of surviving spouses of reserve retirees who did not serve on extended active duty after 1956 but did perform short periods of ACDUTRA after that date. Social Security wage credits earned during periods of ACDUTRA of fewer than 30 consecutive days performed after Dec. 1, 1980, do not affect a surviving spouse's SBP annuity, provided the reservist is refunded the Social Security tax paid on ACDUTRA pay when the reservist's civilian income exceeds the maximum covered annual earnings.

Conclusion

We firmly believe that SBP is an individual family decision, but for most retirees it makes a solid component of your estate plan. Amendments to the program have been made to cover the unique needs of almost all different family circumstances.

With the elimination of the offset over the next three and a half years, SBP provides excellent coverage for most retirees and, together with Social Security survivor payments, can guarantee a safe and sound financial future to the families of retired military personnel.

Glossary

Annuitant – Beneficiary of the SBP coverage.

Annuity – SBP monthly payment to a beneficiary in the context of this booklet.

Base Amount – Amount of military retired pay upon which the SBP annuity and cost are based.

Beneficiary – The person to be paid the monthly SBP annuity; also called an “annuitant.”

COLA – Acronym for cost-of-living adjustment, based on increases in the Consumer Price Index (CPI), used to keep pace with inflation.

Cost Factor – The formula used by DFAS to calculate your monthly cost for the SBP coverage you elect.

CPI – Acronym for Consumer Price Index.

DFAS – Defense Finance and Accounting Service (DFAS) Centers—responsible for administering military retired pay and military annuities; formerly known as military finance centers.

DIC – Acronym for Dependency and Indemnity Compensation paid by the VA.

Finance Centers – Now known as Defense Finance and Accounting Service Centers with exception of USCG, NOAA, and USPHS.

Former Spouse – Former wife or husband of a military member or military retiree.

Insurable Interest – Relative (other than spouse or children) or other person who has an insurable interest in a retiree.

NDAA – Acronym for National Defense Authorization Act.

SBP – Acronym for the Survivor Benefit Plan.

SSO (Social Security Offset) – The amount SBP premiums are reduced for Social Security-eligible survivors after age 62. Offset will be phased out by April 1, 2008.

SSBP – Acronym for Supplemental SBP.

Two-Tier SBP – 55% of the base amount to age 62 and 35% at age 62 and older (P.L. 99-145).

Uniformed Service – Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the U.S. Public Health Service, and Commissioned Corps of the National Oceanic and Atmospheric Administration.

VA – Department of Veterans Affairs.

VA Total Disability – A total service-connected disability for VA purposes requires that a veteran be rated at 100% statutorily or be authorized to draw compensation at the 100% rate because of unemployability.

Legislative History of SBP

Sept. 21, 1972 (P.L. 92-425)

- Repealed the Retired Serviceman's Family Protection Plan (RSFPP) and established the SBP
- Until age 62, payment is 55% of base amount
- Age 62 or older, payment is reduced, dollar-for-dollar, by Social Security entitlement resulting from servicemember's military service performed after 1956 (Social Security Offset [SSO])
- Cost-of-living adjustments (COLAs) applied to base amount and annuity
- Active duty death coverage for surviving spouses, if servicemember had 20 or more years of active service
- Annuity reduced by Dependency and Indemnity Compensation (DIC) awarded by VA if death is service-connected
- Remarriage of surviving spouse before age 60 suspended payment

Nov. 16, 1973 (P.L. 93-155)

- Extended enrollment deadline until March 20, 1974

Sept. 2, 1974 (P.L. 93-406)

- Exempted SBP costs from federal income taxes

Oct. 14, 1976, but effective Oct. 1, 1976 (P.L. 94-496)

- Spouse costs suspended if marriage ends in death or divorce
- Waiting period for new spouse's eligibility reduced to one year following postretirement marriage

Sept. 30, 1978 (P.L. 95-397)

- Eliminated SSO for working widows age 62 or older (SBP will be reduced at age 70, regardless of employment status)
- Restored SBP for widows who remarry after age 60 and lose DIC

Oct. 9, 1980, but effective Dec. 1, 1980 (P.L. 96-402)

- New method for computing costs after COLA
- SSO limited to 40% of pre-62 annuity amount
- Awarded SBP to widows of retirement-eligible servicemembers who died on active duty before Sept. 21, 1972
- Withdrawal clause for servicemembers rated totally disabled by the VA
- After being rated totally disabled by the VA for 10 consecutive years (or five years if awarded 100% VA disability rating at retirement)

Aug. 13, 1981 (P.L. 97-35)

- One-year open enrollment period (Oct. 1, 1981 to Sept. 30, 1982) for servicemembers entitled to retired pay on or before Aug. 13, 1981
- Option to enroll or increase previously elected coverage
- Add spouse to child-only coverage (couldn't add child to spouse coverage)
- Servicemember had to live for two years before beneficiary(ies) became eligible

Sept. 8, 1982 (P.L. 97-252)

- Uniformed Services Former Spouses' Protection Act (USFSPA) was provision of this legislation; later amended by P.L.s 98-525 and 100-456
- Former spouse coverage authorized for retiring servicemembers (elections became effective no earlier than Feb. 1, 1983)

Oct. 19, 1984 (P.L. 98-525)

- Deemed elections by former spouses within one year of court order requiring SBP to be established on former spouse's behalf

Nov. 8, 1985, but effective March 1, 1986 (P.L. 99-145)

- Spouse's written concurrence required for retiring servicemember's election that provides less than maximum spouse coverage (10 USC 1448[a][3][A])
- Open season permitted servicemembers with any SBP option to make new former spouse elections until Nov. 8, 1986
- Former spouse and child coverage permitted (open season until Nov. 8, 1986)
- Two-tier system (55/35%) used to determine SBP annuities
- First tier: 55% of base amount until surviving spouse is age 62
- Second tier: 35% of base amount for surviving spouses age 62 or older
- Annuitants are "grandfathered" if servicemember was retired or retirement-eligible on or before Oct. 1, 1985, but SSO formula may be used if more favorable
- Servicemembers who retired between Oct. 19, 1984, and Nov. 8, 1985, permitted to withdraw (request must be submitted before Nov. 8, 1986); premiums were refunded
- SBP for children if retirement-eligible servicemember and spouse die as result of common accident

July 1, 1986 Military Retirement Reform Act (P.L. 99-348)

- Payments to surviving spouses of servicemembers who first entered active duty after Aug. 1, 1986, will be increased by CPI until servicemember would have been age 62, then a one-time COLA "catch-up" will be applied

Oct. 28, 1986 (P.L. 99-576)

- Authorized offsetting VA compensation to collect certain service debts, such as SBP premiums

Nov. 14, 1986 (P.L. 99-661)

- Remarriage before age 55 suspends coverage or annuity payments
- No age-62 reduction to annuities of disabled children
- Active duty death benefits for children if there is no surviving spouse or the spouse subsequently dies
- Repeal of the common accident limitation under active duty death provision (formerly, child eligibility contingent upon servicemember and spouse dying as a result of a common accident)

Nov. 29, 1989 (P.L. 101-189)

- New computation for spouse and former spouse costs (effective March 1, 1990)
- Flat rate of 6.5% of base amount
- Old formula (2.5% of threshold amount, plus 10% of remaining base amount) will be used if more favorable for servicemembers who were on active duty on or before Feb. 28, 1990, or servicemembers retired for disability (Ch 61) or non-regular service (Ch 1223)
- Established Supplemental SBP (SSBP) option for retiring servicemembers (effective Oct. 1, 1991, but deferred until April 1, 1992)
- SSBP annuity (5, 10, 15, 20 percent of full retired pay) to be paid in addition to

standard 35% tier payment for surviving spouses age 62 or older

- Servicemember electing SSBP must waive SSO computation even if more favorable
- Authorized one-year open enrollment period scheduled to begin Oct. 1, 1991 (deferred to April 1, 1992)
- Elections are not valid unless servicemember lives for two years from effective date of election

Nov. 5, 1990 (P.L. 101-510)

- Delayed implementation of open enrollment and SSBP until April 1, 1992

Nov, 15, 1990 (P.L. 101-508)

- VA limited payment of DIC to widows who do not remarry (effective Nov. 1, 1990)

Dec. 5, 1991 (P.L. 102-190)

- Authorized an additional premium for open-enrollment elections (up to 4.5% for servicemembers retired more than 18 years)
- SSBP annuity must be based on full retired pay
- Servicemember may elect SSBP in increments of 5% up to 20% (effective April 1, 1992)

Oct. 23, 1992 (P.L. 102-484)

- Eliminated the two-year survival period for servicemembers making an open-enrollment election if married to widows who were entitled, before Nov. 1, 1990, to receive DIC based on a previous marriage

Oct. 29, 1992 (P.L. 102-568)

- Eliminated grade-based DIC payments
- Surviving spouses of servicemembers who died on or after Jan. 1, 1993, receive \$750, regardless of servicemember's grade

- Increased Servicemen's Group Life Insurance (SGLI) and Veterans' Group Life Insurance (VGLI) from \$100,000 to \$200,000 effective Dec. 1, 1992

Aug. 10, 1993 (P.L. 103-66)

- COLA delayed until March 1, 1994

Nov. 18, 1997 (P.L. 105-85)

- Established option to terminate SBP participation
- For servicemembers retired for more than two years (as of May 17, 1998), authorized a one-year opportunity (May 17, 1998 to May 16, 1999) to disenroll (must provide spouse/former spouse's written concurrence and release of requirement to provide former spouse SBP, if appropriate)
- Servicemembers retired less than two years on the effective date may terminate participation (with the spouse/former spouse's concurrence and release of requirement to provide former spouse SBP, if appropriate) during the one-year period commencing on the second anniversary of their receipt of retired pay
- Removed the one-year restriction for servicemembers to change from former spouse to spouse coverage
- Provided an Annuity Certain Military Surviving Spouses – Servicemember must have been retired and died prior to March 21, 1974
- Reservist who died between Sept. 21, 1972, and Oct. 1, 1978, and who at time of death would have been entitled to retired pay but was not yet age 60
- Surviving spouse must not have remarried or otherwise be entitled to SBP, DIC, or RSFPP

June 9, 1998 (P.L. 105-178)

- Effective Oct. 1, 1998, reinstated the eligibility of certain remarried surviving spouses for DIC upon termination of that remarriage. The Omnibus Budget Reconciliation

Act of 1990 had terminated a widow's ability to requalify for DIC when a subsequent marriage ended, restricting payment of DIC to widows who never remarried

- The first month of eligibility for payment of DIC to a surviving spouse shall be the month after the month of the termination of such remarriage
- No payment may be made for any month before October 1998

Oct. 17, 1998 (P.L. 105-261)

- Added paid-up provision for SBP participants age 70 or older, whose retired pay has been reduced for 360 months or more; to become effective Oct. 1, 2008
- Established SBP open-enrollment period (March 1, 1999 to Feb. 29, 2000) for servicemembers not participating to the fullest possible extent
- One-time buy-in premium required
- Amount determined by date retiree first had eligible beneficiary
- Two-year survival clause; if retiree dies within two years of the effective date, premiums refunded to person who would have been the beneficiary
- Prohibited servicemembers who withdrew under P.L. 105-85 from submitting elections during this enrollment

Oct. 5, 1999 (P.L. 106-65)

- Authorized two active duty pay increases; one effective Jan. 1, 2000, for all grades; the second, a special pay increase for selected grades effective July 1, 2000, resulting in two SBP threshold amounts
- Servicemembers who elected SBP coverage during the open enrollment will be treated as if they elected coverage at their first opportunity (time will be used in computing 360 payments for the paid-up provision)
- Extended the paid-up provision (age 70 and 360 payments) to the RSFPP to become effective Oct. 1, 2008

Oct. 30, 2000 (P.L. 106-398)

- Requires Reserve and National Guard servicemembers who have completed their service obligation and considered entitled for retired pay, but who are not yet age 60, to obtain their spouses' concurrence in Reserve Component SBP (RCSBP) elections that do not provide maximum spouse coverage (immediate option). Applies to all servicemembers receiving notification of service completion after Jan. 1, 2001

Dec. 28, 2001 (P.L. 107-107)

- SBP eligibility extended to spouse or eligible children of all active duty deaths classified in the line-of-duty (LOD) since Sept. 10, 2001
- Annuity computed as if the servicemember were retired with full disability rating on the date of death
- No change to the eligibility or the computation of the SBP annuity for retirement-eligible servicemember whose death is determined NOT to be in the LOD

Oct. 28, 2004 The National Defense Authorization Act (NDAA) of 2005 (P.L. 108-375)

- Phases out the SBP "Widows Tax" by increasing the minimum SBP annuity for survivors age 62 and older to 40% of retired pay as of Oct. 1, 2005; to 45% of retired pay on April 1, 2006; to 50% on April 1, 2007; and to 55% on April 1, 2008
- Retirees with Supplemental Survivor Benefit Plan (SSBP) will maintain the same coverage levels, but such retirees will no longer have to pay the extra premium for the supplemental SBP coverage as of the date the new law is enacted
- Creates an "Open Season" and allows retirees not enrolled in SBP to participate in a one-year open-enrollment period starting Oct. 1, 2005—provided they make a lump-sum payment covering all back premiums since date of first eligibility, plus interest

Notes

Notes

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