



Survivor Benefit Plan

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COURSE DESCRIPTION

The Survivor Benefit Plan is a 60-minute course that provides basic information on the key provisions of the Survivor Benefit Plan (SBP). This information will assist service members and their spouses in making informed decisions about SBP's role in their retirement plan.

Due to the complexity of this topic, the facilitator should be comfortable with basic financial planning subjects such as the time value of money, inflation, life insurance, annuities and investments. This course provides more information than is necessary for presentation.

Although the SBP allows numerous classes of beneficiaries, the majority of military retirees are male and the majority of SBP beneficiaries are female spouses. This course is designed from that perspective.

LEARNING OBJECTIVES

Terminal: Upon conclusion of the course, learners will understand the function and benefits of SBP so that they can make the best decision for themselves and their beneficiaries.

Enabling:

- Learners will develop and correctly answer 10 questions to review content material about the SBP coverage, costs, options and considerations during *The Missing Link* activity.
- In the *SBP Debate*, learners will use a debate format to articulate at least five pros and cons to the SBP and discuss how these points influence their decision to participate in this program.

REFERENCES

Department of the Navy. (2005). SECNAV Instruction 1754.1B: *Family Support Programs*. Office of the Secretary of the Navy, Washington, D.C.

Department of the Navy. (2010). *OPNAV Instruction 1740.5B Change Transmittal 2, United States Navy Personal Financial Management (PFM) Education, Training, and Counseling Program*. Chief of Naval Operations, Washington, D.C.

Department of the Navy. (2009). *Command Financial Specialist Training Manual*. Commander, Navy Installations Command, Washington, D.C.

“Annuities Based on Retired or Retainer Pay.” Title 10, *U.S. Code*, Chapter 73.

“Survivor Benefit Plan.” *Army Retirement Services Office*. U.S. Army, n.d. Web. July 11, 2015. <http://soldierforlife.army.mil/retirement/sbp>

“Survivor Benefit Plan.” *Defense Finance and Accounting Service*. Department of Defense, March 20, 2015. Web. July 11, 2015. www.dfas.mil/retiredmilitary/provide/sbp.html

“Survivor Benefit Plan.” *U.S. Air Force Retiree Services*. U.S. Air Force Retiree Services, n.d. Web. July 11, 2015. www.retirees.af.mil/sbp

“Survivor Benefit Plan Details.” *Navy Mutual Aid Association*. Navy Mutual Aid Association, n.d. Web. July 11, 2015. <https://www.navymutual.org/Education/Military-Benefits/Survivor-Benefits.aspx>

“The Survivor Benefit Plan Explained.” *Military.com*. Military Advantage, n.d. Web. July 11, 2015. www.military.com/benefits/survivor-benefits/the-survivor-benefit-plan-explained.html

“Survivor Benefits Plan.” *Office of the Secretary of Defense*. Office of the Under Secretary of Defense for Personnel and Readiness, n.d. Web. July 11, 2015. <http://militarypay.defense.gov/Benefits/SurvivorBenefitProgram.aspx>

“Understanding the Survivor Benefit Plan.” *Military OneSource*. Department of Defense, June 30, 2015. Web. July 11, 2015. www.militaryonesource.mil/casualty?content_id=270439

COURSE PREPARATION

Handouts:

- *The Survivor Benefit Plan: Information and Resources*

Materials (vary depending on activities chosen):

- Index or notecards

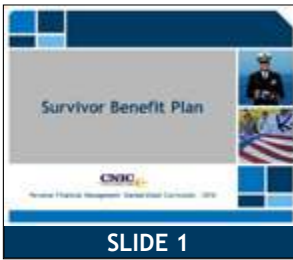
- Pencils and markers
- Blank paper
- *Survivor Benefit Plan* PowerPoint slides

SUMMARY OF LEARNER ACTIVITIES

- *The Missing Link*: A group activity in which learners develop review questions for the class to answer.
- *The SBP Debate*: Learners review plan functions and benefits using a debate format.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
 - a. Agenda
2. The Plan (10 minutes)
 - a. What is SBP?
 - b. Learner Activity: *The Missing Link, Part 1*
 - c. SBP and Financial Planning
 - d. Coverage and Cost
3. Options and Considerations (20 minutes)
 - a. Election Options
 - b. Important Considerations
 - c. Learner Activity: *The Missing Link, Part 2*
4. The Decision (20 minutes)
 - a. Personal Assets
 - b. Life Insurance
 - c. Advantages and Disadvantages
 - d. Learner Activity: *The SBP Debate*
5. Summary (5 minutes)
 - a. Sources of Help



CONTENT MATERIAL

WELCOME AND INTRODUCTION

AGENDA

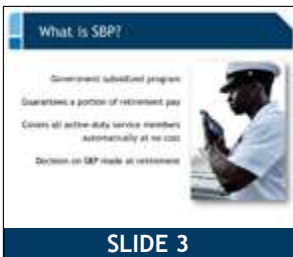
One of the most important aspects of financial planning is the ability to provide for a survivor or survivors in the event of a wage earner's death. People rely on several different types of tools to help ensure continuing income for their survivors; these tools range from personal assets to life insurance to Social Security. Some service members also believe their retirement pay will continue to be paid to their survivors, unaware that this is true only if they have elected at retirement to participate in the Survivor Benefit Plan (SBP). This course will explain how SBP works, the costs and coverage amounts, election options (who you can designate to receive the SBP benefit) and additional considerations to help you make this important decision.



THE PLAN

WHAT IS SBP?

The SBP is a government-subsidized program that guarantees that a portion of a service member's monthly retirement pay will continue to be paid to a spouse or other designated beneficiary after the service member's death. Unlike any other resource available, the SBP monthly payment is guaranteed by the government and protected from inflation.



All active-duty service members are automatically enrolled in SBP at no cost. The government bears the total cost of that coverage while you are on active duty. Should you die in the line of duty, your retired pay entitlement is calculated as of that date, and the SBP annuity flows to your surviving spouse from that amount.

Your decision at retirement, then, is whether you wish to afford your family the same survivor benefits that were in place for you on your last active-duty day. If so, you begin to share SBP's cost with the government by electing to receive reduced retired pay during your lifetime. When a service member maintains SBP coverage, their portion of the cost will be deducted from their retired pay on a pretax basis. The government cost-sharing and pretax treatment of the service member's cost makes the SBP an attractive way to provide long-term financial security for a beneficiary.

The SBP decision, however, is complicated by the fact that military retirement often occurs at a young age. Retiring service members in their late 30s or early

40s will likely have many forces competing for their income. They are raising young children, buying houses and preparing for new careers. Any reduction in retirement pay at an uncertain time in their life cycle can understandably be viewed as a sacrifice. And due to the transient nature of military life, many service members' spouses have put their careers on hold. If the spouses have held jobs, they may not have worked long enough in one place to accrue long-term retirement benefits. Because military retirement pay stops when the retiree dies, it is critical to consider the long-term income needs of the surviving spouse and that is an advantage of SBP.



LEARNER ACTIVITY: *The Missing Link, Part 1*

Time: 5 minutes



Materials: Index cards or notecards, pens, pencils

Procedure: Distribute four index cards to each learner. Tell them to write “Coverage” at the top of one card, “Cost” at the top on one card, “Options” at the top of one card and “Considerations” on the final card. Instruct learners to develop one fill-in-the-blank question from the content material on each card/topic. Instruct them to write the questions on one side and the answers on the back. Explain that you will be using these questions as a review of the material later in the class.

Depending on time and the size of the class, you may want to have learners develop additional questions (for small groups) or have groups or pairs develop their questions (for large groups).

SBP AND FINANCIAL PLANNING

Financial planners look at six key areas of a person's financial life:

Basic financial statements, such as a cash flow or a budget, which track regular income and expenses, and a net worth statement, which measures the amount of assets you own and the amount of liabilities you owe.

Insurance planning, which includes all aspects of risk management, especially life insurance needs.

Investment planning, which typically includes personal assets such as stocks, bonds and mutual funds. It may also include assets, such as real estate and businesses owned.



Retirement planning, which includes planning retirement dates, estimating longevity, exploring employer-provided pensions and personal investment plans to ensure cash flow continues when you decide to stop earning income.

Tax planning, which involves looking at all areas of a person's financial life and ensuring payment of the minimum amount of tax possible.

Estate planning, which is concerned with preserving and passing on any assets you have accrued over your lifetime and includes planning for survivors through the use of wills, medical powers of attorney, etc.

The SBP is a unique financial planning tool that affects every area of your financial plan:

- The decision involves consideration of a retiree's cash flow and a determination of the affordability of the SBP premium.
- Often insurance is sold as a "replacement" for SBP (which it is not), so your insurance planning can be affected by SBP.
- Your personal investments will affect the decision to take SBP, because if you have sufficient personal investments, your survivors may not need to have a portion of your retired pay continue.
- SBP is a key component of your retirement planning and a unique benefit when it comes to compensation plans. When exploring the options for employment outside the military, you will want to be familiar with the characteristics of SBP so you can compare it to the benefits offered by a potential employer. SBP also broadens the worth of your retirement benefit, so it should be taken into consideration when evaluating all retirement plans you may have in effect.
- Taxes come into play in several ways when considering SBP, with the biggest factor being the pretax nature of the premium payment.
- Finally, the SBP can be a big piece of estate planning, especially if you have a child with special needs who will require continued income in the event of your death. This invaluable option allows for mentally or physically incapacitated children to continue receiving the benefit as long as they continue to be incapacitated.

So, whether you are about to retire and need to make the SBP decision or are simply interested in what the program is about, you can see that it is worth your time to learn about this important (and virtually unmatched) benefit.

COVERAGE AND COST



Trainer's note: Refer learners to the *Survivor Benefit Plan: Information and Resources* handout. Explain that the information you will cover in this training is also included in the handout for them to take home.

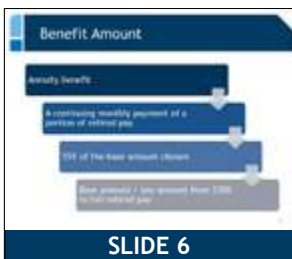
Retired Service Members

Someone who participates in SBP makes a fairly straightforward decision: they choose to receive reduced retired pay during their lifetime to be able to continue a portion of their retired pay after their death. Conversely, one can say that retirees who do not participate have elected to receive full retired pay during their lifetime, knowing that their full retired pay will die with them.



Benefit Amount

The SBP benefit, called an “annuity,” is the regular, continuing payment of a portion of retired pay to a designated beneficiary (sometimes referred to as the “annuitant”) after the service member dies. The portion is 55 percent of a base amount chosen by the service member. The base amount is the dollar amount of retired pay selected by the service member, upon which both the cost and benefit are based. It can be any dollar amount between \$300/month (the minimum) and the service member’s full retired pay.

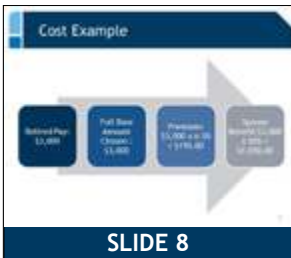


Cost

SBP was designed with the military spouse in mind (former spouse costs and benefits follow the same rules). Spouse coverage costs 6.5 percent of the base amount selected. No similar private survivor program matches SBP’s 6.5 percent tax-free cost and other features.



Trainer's note: The following is a basic calculation of a premium and a benefit (under the “spouse only” election). Spouse and child and child-only options are age dependent and require a cost factor to calculate. If learners want to estimate these options, suggest that they contact their Personnel Support Detachment or Navy career counselor for the cost factors and then go to the following website for the calculation formulas: <http://militarypay.defense.gov/Benefits/SurvivorBenefitProgram/SBPWorksheet.aspx>.



Example: If a service member's retired pay will be \$3,000 per month, the service member can choose any amount from \$300 to \$3,000 as the base amount. If the service member chooses the full base amount and desires spouse-only coverage, the cost will be:

Cost: $\$3,000 \times 0.065 = \$195/\text{month}$

This payment, or premium, will be deducted from retirement pay each month before taxes are calculated, resulting in an additional benefit.

Having chosen \$3,000 as a base amount, the benefit would be 55 percent of the monthly base amount; in this case, \$1,650 will be paid monthly to the surviving spouse as taxable income.

Annuity: $\$3,000 \times 0.55 = \$1,650/\text{month}$

For each year in which retired pay receives a cost-of-living adjustment (COLA), the base amount increases accordingly. For example, if the \$3,000 base amount receives a 3 percent COLA, the base amount is now \$3,090 and the spouse's potential survivor annuity has increased to \$1,699.50.

Active-duty Service Members



Death in the line of duty: If the service member is on active duty at the time of death and the death is in the line of duty, then the service member's family qualifies for SBP benefits. The SBP base amount is equal to the retired pay as if the service member retired with total (100 percent) disability or 75 percent of the appropriate retired pay base. (Those electing CSB/REDUX get the reduced cost-of-living-adjustment.)

Death is not in the line of duty: If the service member is retirement-eligible at the time of death while on active duty, then the SBP base amount is equal to the retired pay that the service member would qualify for under applicable law of the respective service of the deceased service member. However, in the case of a death of a service member who is not on active duty, or was on active duty but the death is determined to be not in the line of duty and the service member is not eligible for retired pay, then the service member's death does not qualify for SBP benefits. The SBP base amount will be computed as if the service member retired for length of service based on the final basic pay or High-36 average applicable. (Those electing CSB/REDUX get the reduced cost-of-living adjustment.)

Beneficiaries: For deaths while on active duty, the beneficiaries, in order of priority, are:

- Former spouse based on a court order
- Current spouse
- Children

Threshold Amount: For service members who entered before March 1, 1990, and determine that their family does not need the benefit provided by covering full-retired pay, the term “threshold amount” may be of interest. The “threshold” is the portion of the base amount that costs 2.5 percent. This does not apply for those who entered service on or after March 1, 1990.

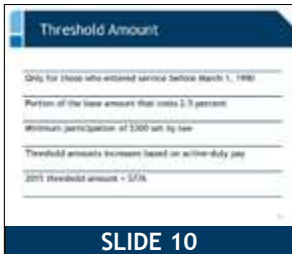
The minimum participation of \$300 is set by law and never changes. However, the threshold amount increases periodically (annually or semi-annually) based on the active-duty pay raise percentage. As of Jan. 1, 2015, the threshold amount is \$776. The rationale for this is that as one’s active-duty pay rises over the course of a career, a relative increase of the lowest amount which costs 2.5 percent is considered appropriate, to keep pace. While it remains advantageous for most service members to cover full-retired pay as the base amount, covering a reduced base amount (at least the threshold amount) should be considered.

OPTIONS AND CONSIDERATIONS

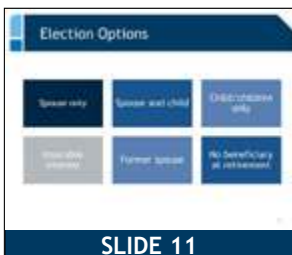
THE ELECTION OPTIONS

There are six SBP election options. An election enrolls eligible beneficiaries within a category. The most important feature of electing by category is that the decision you make for each category available to you is binding. In other words, if you have an eligible spouse or child whom you do not enroll, then later gain a spouse or child or simply wish you had enrolled, you have closed these categories forever! Your only ability to change this decision might be through a future “open enrollment,” of which there have been only five since 1972, with the last one in 2005. Conversely, if you do enroll your eligible beneficiaries at election time, all future eligible persons in those categories will be automatically covered.

Federal law requires that SBP elections be made before midnight of the last active-duty day. If the election is not made before retirement, federal law directs the Defense Finance and Accounting Service (DFAS) to default the election to full spouse coverage. If that happens, the election can be changed only if the service member proves that the government erred in the election process. This is a safeguard that protects a spouse’s expected benefit. In fact, Congress strengthened



SLIDE 10



SLIDE 11

the process in 1986, when they began to require that married service members provide their spouse's written concurrence to make certain elections.

Generally speaking, the SBP process is:

- The service member and spouse receive SBP counseling.
- The service member makes an SBP election.
- If the election requires spousal concurrence, the spouse is notified of the decision and given the opportunity to concur.
- If concurrence is provided before retirement, the election is valid.
- If it is not, the election is invalid and full spouse coverage is established, in accordance with federal law.
- Certified mail is used to obtain concurrence when the spouse cannot be present for counseling.

Spouse-only Option

The spouse-only option requires written spousal approval if a service member elects a reduced base amount or declines SBP entirely. If \$300 is chosen, the survivor's benefit would be 55 percent of \$300, or \$165. The cost would be 6.5 percent of \$300, or \$19.50 per month. A reduced benefit amount may be appropriate if there are other substantial sources of funds available to replace the retiree's lost income. If no election is made, the retiree's full retirement pay will automatically be used as the base amount.

The annuity is paid for the surviving spouse's lifetime – it cannot be outlived. Your spouse may remarry after age 55 and continue to receive the survivor's benefit. If remarriage is before age 55, the benefit stops. If the marriage ends due to death or divorce, payments can resume. Former spouses are covered under a separate category but under the same cost and benefit rules as current spouses. This category will be covered in the next section.

It is important to note that with spouse-only coverage, only the spouse is covered. If the spouse dies and there are surviving children, they will not receive a benefit under the spouse-only election. If a service member would like the benefit to continue for children, the spouse-and-child election may be a better choice.

Spouse and Child Option

With the spouse and child option, the spouse is the primary beneficiary and children are secondary beneficiaries. The annuity is not paid to the children unless



the spouse first loses eligibility through remarriage before age 55 or through death. Even then, the children must be under age 18 (or 22 for full-time students) to be eligible.

The cost for this election is based on the cost for spouse coverage and an additional cost based on the age of the child and both spouses. One important reason to elect child coverage is because SBP is paid forever to an incapacitated child, as long as the incapacitation occurred when the child was in the eligibility age range. Note that if an election is made for a former spouse and children, only the children who resulted from that marriage are eligible beneficiaries. This means that if you gain children in the future, they could not be added to a “former spouse and child” election. However, if you elect “spouse and child,” all of your children, of any unions, are eligible.

Children

Children are eligible for coverage if they are unmarried and under the age of 18. If they are full-time students, they can be covered until age 22. Marriage at any age renders a child ineligible for coverage. Children may be covered with or without spouse or former spouse coverage. Coverage also applies to children who are unable to support themselves due to a physical or mental disability that existed before they turned 18 or 22 if the child was a full-time student when they became incapacitated or disabled.

If covered without a spouse or former spouse, the children will divide 55 percent of the retiree’s base amount. Using the earlier example, if the base amount is \$3,000, the monthly payout would be \$1,650. If there are three children, each would receive \$550. As the children become ineligible for coverage due to age or marriage, the remaining children will divide the annuity payment. The cost for coverage is based on the ages of the service member and the youngest child. All eligible children are covered at one cost, and the cost stops when children are no longer eligible. The cost for the child-only benefit is cheaper than the spouse benefit because the benefit ends when the children are 18 or 22. However, this election is costlier than the spouse and child election because the child is the primary beneficiary.

Insurable Interest

If a service member is unmarried, they may cover another family member or even a business associate. Covered family members must be more closely related than a cousin. Parents, stepparents, siblings, aunts, uncles and grandparents all



qualify. An individual child or stepchild can be covered regardless of dependency status. Business associates can also be protected if they would suffer financially due to the death of the retiree.

Costs for this option are 10 percent of the retiree's full base amount plus 5 percent for every full five years the beneficiary is younger than the retiree. If the beneficiary is 12 years younger than the retiree, an additional 10 percent would be charged. The maximum premium is 40 percent. The cost of insurable interest coverage continues to be subtracted from the beneficiary's monthly annuity.

The benefit for the insurable interest option is also 55 percent of the base amount. Under this option, the service member is required to elect the maximum base amount. Unlike the other options, premiums continue to be paid after the death of the retiree.

Other Options

Former spouse: Benefits for a former spouse are identical to spousal benefits. If a former spouse is covered by SBP, a current spouse and/or children of the current spouse cannot be covered. When electing former spouse coverage, the member must file a written statement with the finance center indicating the reason for the election. The current spouse must also be informed of the election. The rules regarding a spouse's remarriage apply to the former spouse.

No beneficiary at retirement: Service members without a spouse or children on their date of retirement have future options. Because they have no eligible beneficiaries now, they have not closed the door on future enrollment.

If a service member gains an eligible family member after retirement, contact Defense Finance and Accounting Service (DFAS). Service members have a one-year time limit on making all SBP changes. If you gain a child, the coverage takes effect upon your request. If you gain a spouse, while you must take the action before your one-year anniversary (i.e., make a written request and provide a marriage certificate) – a spouse gained after retirement is not eligible until completing one year of marriage, or earlier, if a child is borne of the marriage.

IMPORTANT CONSIDERATIONS

Social Security offset: In the past, a surviving spouse would experience a Social Security offset at age 62. This no longer applies. The annuity is 55 percent of the base amount regardless of the annuitant's age.



Paid-up status: Since Oct. 1, 2008, when a service member has paid SBP premiums for 30 years and has reached age 70, he or she is considered fully paid up and coverage continues without any further premium payments.

One-year termination option: Between the 24th and 36th month of SBP participation, you may terminate SBP coverage. Spouses and former spouses must give their consent for this termination. There is no refund for past protection, and future enrollment is barred.

It will be helpful if, two years into retirement, you ask these two questions:

- Is my retired pay still a major part of our household income?
- Have I adjusted my lifestyle to incorporate the cost of SBP?

If you answer yes, then stay enrolled in the SBP. If you answer no, discuss termination with your spouse (whose concurrence you need) and take action to cancel your enrollment.

Premiums stop if you lose your spouse: If your marriage ends due to the death of your spouse or divorce, premiums for SBP protection stop once you provide appropriate documentation to DFAS. If you remarry, you can cover your new spouse.

Open enrollment: Some people think they can join SBP years after they retire, during “open enrollment.” In the 25-plus-year history of SBP, only five times have retirees had a second chance at SBP. Each time was after major plan improvements. The second time, premiums were raised for new joiners to help make up for the missed premiums. The third time, new joiners were required to pay all missed premiums with interest, plus an additional amount to protect the solvency of the plan. Open enrollment elections have typically required a period of time (two years) before the election takes effect. This prevents too much adverse election (people joining with short life expectancy).

Do not count on an open enrollment. Although open enrollment may be offered at some point, this is not part of the regular plan. No more open enrollments are expected, and it will not give your survivors peace of mind.

Pretax benefit: One of the major advantages and cost savings of the SBP is that premiums are taken out of retired pay before taxes are computed, resulting in a significant tax savings and further reducing the true cost of the SBP benefit for the service member.

Pretax Benefit

\$3,000 Retirement
\$3,000 x 28% = \$840 Paid to Taxes

With SBP Premium
\$3,000 Retirement (14%) Premium
\$3,000 x 28% Tax Rate
\$780 Paid in Taxes
\$50 less in Taxes each Month

\$300 Premium - \$55 Tax Savings
= \$245 Actual Cost

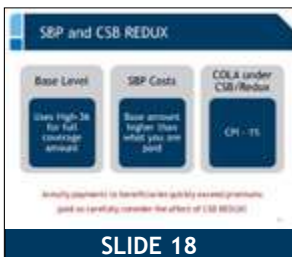
SLIDE 17

For example, if a service member with a \$3,000 monthly retirement check declines SBP, the entire \$3,000 gross retired pay will be taxed. If the service member is in the 28 percent tax bracket, the taxes due are \$840. However, if a service member covers a spouse at the full base amount, which costs \$195 per month, the resulting taxable income is \$2,805 (because the premium comes out before taxes are assessed) and federal taxes due are \$785, or \$55 less each month.

You could say that, in reality, including the tax savings, the premium is \$195 less the \$55 in tax savings, or \$140. Understanding this concept allows you to make sound cost comparisons of SBP with other insurance products.

Real comparisons require the use of real figures. When a private product is being touted as one that “will provide the same benefit as SBP, for the same cost,” be sure to use only the real, after-tax SBP cost as your basis for comparison.

Trainer’s note: You may need to explain the basics of the CSB/REDUX plan to learners who are not familiar with it. Alternatively, you can sum up this discussion by simply noting that choosing CSB/REDUX will also result in a reduced SBP benefit.



SBP and CSB/REDUX: SBP operates slightly differently in regard to costs and benefits when a service member elects the CSB/REDUX retirement option. CSB/REDUX includes a readjustment to its retired pay amount. At age 62, retired pay is recomputed to what it would have been under High-36. Also, at age 62, a one-time cost of living adjustment (COLA) is made that applies the cumulative effects of High-36 COLA (CPI) to the new retirement base. Afterward, all future COLAs are again set to the consumer price index (CPI) minus 1 percent.

- **Base level:** Under CSB/REDUX, full coverage means the full retired pay you would be entitled to under High-36 is your base amount. (This is the amount that would be used as a basis for your age 62 retired pay adjustment.)
- **SBP costs (premiums):** If you elect full coverage, your base amount is higher than what you are actually paid until the age 62 readjustment. Also, remember that the base amount is adjusted annually by CPI minus 1 percent.

COLA under CSB/REDUX: Service members who choose the CSB/REDUX plan have a COLA of CPI minus 1 percent. This reduced COLA affects the retirement benefit under SBP. If in a given year the CPI was 3 percent, the increase in survivor pay would be 2 percent. In the year the service member would have been age 62, survivor’s benefits are adjusted to what they would have been if full CPI increases

had been applied from the beginning. After this one-time restoration, survivor annuities are once again subject to annual increases of CPI minus 1 percent.

Results: As a result of this modification to the standard premium and benefit calculations, you will pay a higher proportion of your retired pay to obtain coverage. This amount, however, is the same as what an individual who opted for High-36 would pay for the same amount of coverage. Your beneficiary will be better protected against inflation than they would be if SBP benefits received the same COLA as under CSB/REDUX. In effect, you are paying the same price as a High-36 individual for the same coverage.

Annuities versus premiums: The annuity your spouse receives will quickly exceed the amount you paid in SBP premiums.

- If the retiree paid premiums for five years, the spouse beneficiary will receive the equivalent of the total SBP premiums paid in just eight months of collecting the annuity.
- If the retiree paid premiums for 15 years, the SBP beneficiary will receive the equivalent of the total SBP premiums paid in one year, six months.
- If the retiree paid premiums for 30 years, the spouse will receive the equivalent of the total SBP premiums paid in two years, five months.



LEARNER ACTIVITY: *The Missing Link, Part 2*

Time: 10 minutes



Materials: Index cards or note cards containing review questions

Procedure: Collect the learners' fill-in-the-blank review questions. Read at least 10 questions to the class and ask the learners to answer the questions. Fill in any missing information for clarity before proceeding to the next section.

THE DECISION

When making your SBP decision, you must consider how much income the surviving spouse can afford to lose. Some expenses, such as housing, children's education and activities, will likely remain the same. Food, insurance and car expenses may decrease. Costs for child care, home maintenance and professional

services may increase. It will likely be determined that some measure of income replacement will be necessary to preserve the family's economic security. For service members with a desire to provide ongoing retirement income for their spouse, it is logical to consider the cost of SBP relative to other personal or commercial alternatives.

PERSONAL ASSETS

If a couple has other assets that could be used to generate income, it is necessary to determine whether those assets are sufficient on a long-term basis. Using a 6 percent rate of return on investments with an annual inflation rate of 3 percent, \$476,273 would have to be available at retirement to provide a monthly annuity of \$1,650 to the surviving spouse based on average life expectancy.

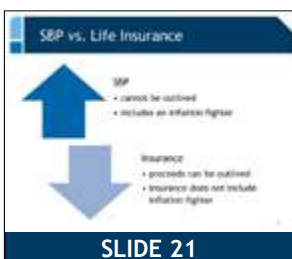
Although many service members are successful financially, few have \$476,273 available at their military retirement to set aside for this purpose. In addition, investment and economic environments change. There is no guarantee that 6 percent can be earned consistently or that inflation will remain at 3 percent.

LIFE INSURANCE

Life insurance is another possibility. Because SBP is guaranteed, permanent (whole life) insurance is the only legitimate alternative, because it is also designed to provide lifelong protection. A policy providing a face amount of \$476,273 would cost a non-smoking 40-year-old male approximately \$709 monthly. Rates vary by company and by other factors relating to the applicant, such as gender, health history, avocations and smoking status. These factors will affect the premium cost. If SBP premiums increase annually by 3 percent, they will never get as high as the whole-life premium. So, the actual lifetime cash outlay will be higher using the insurance approach. However, insurance will pay benefits to the beneficiary even if they have remarried.

Any program earmarked as security for your survivors deserves serious consideration. Do your homework and talk to reputable insurance providers. Personalized SBP valuation printouts, prepared by the DoD Actuary, are available online or through your Reemployed Annuitant Office. To access this program, go to the DoD Actuary home page, <http://www.dod.mil/actuary/>, hover on "Survivor Benefit Plan" at the upper right, and select "Insurance."

SBP versus life insurance: If you are considering forgoing SBP and replacing it with a commercial insurance product, remember these five main points:



- Use the valuation program to see exactly how much insurance you need in place to provide the same benefit as SBP.
- Because you do not know how long your spouse will outlive you, determining what is adequate regarding insurance is impossible. However SBP benefits cannot be outlived.
- SBP's inflation-fighter is its guaranteed COLAs. Increasing life insurance is needed as one ages, due to inflation's eroding effect on the dollar's purchasing power.
- Try to adjust your thinking from short-term to long-term. When you limit your view, life insurance may appear more attractive (i.e., cheaper) than SBP. But, if you compare SBP costs and benefits with life insurance costs and benefits for each year in the future, you will see that insurance costs must increase dramatically based on the insurer's increased risk of paying a policy. Since SBP protects your ever-increasing retired pay, its value rises at the same rate – even after it begins to be paid as an annuity.
- The SBP premium is government subsidized and deducted pretax. No commercial product has these features.

In a well-designed retirement plan, it is probable that some combination of personal investments, life insurance, government benefits and retirement benefit plans from post-military employers will all be at work. When one factors in the government's subsidization of SBP costs, the COLAs and the pretax treatment of premiums, the SBP can be a cost-effective way to deliver an ongoing measure of financial security to spouses and families.

ADVANTAGES AND DISADVANTAGES

To summarize the advantages of the SBP:

- The impact of a government subsidy speaks volumes. Only a nonprofit concern like the U.S. government can offer this feature.
- SBP offers pretax benefits. If you choose, you can even use the tax savings to make other investments.
- Unlike insurance values, which are eroded by inflation, SBP's value increases at the same rate as retired pay.
- If you balk at the finality of "SBP elections are forever," the termination feature permits you to rethink your participation after you have settled into retirement for two years. And do not forget SBP's "paid-up" provision.



- The annuity is paid for however long it is needed – from one year to 50 years or more.
- SBP costs do not consider any factor except covered retired pay.
- SBP offers a level benefit of 55 percent without regard to the age of the spouse or former spouse.
- There are no extra fees, agent commissions or risks to the retiree.
- Only Congress can change SBP's features. They make changes on matters affecting survivors very cautiously.
- While less quantifiable, peace of mind rises in value with age.
- Every active-duty service member is enrolled at no cost. At retirement, you must decide to continue participation and share cost.

Trainer's note: For each of the “disadvantages” below, there is a benefit. Read through the content module to be familiar with the arguments in favor and against taking SBP.



The disadvantages of SBP actually all have a positive side:

- All income is typically taxed at the front end or back end.
- Obviously, it is smartest to take a tax break when it is of most value to you – when you are in a higher tax bracket as a couple. That is when tax-free SBP premiums are paid. It is not a viable “counter” to pose that insurance proceeds are tax-free – when they are used, they are taxed, and when they are gone, they are gone.
- SBP's goal is to protect military retired pay ... period. If it is protection of a spouse's life you seek, you might want to buy a life insurance policy. In fact, you can use the monthly tax savings SBP provides to fund that policy.
- Choosing to receive reduced retired pay during your lifetime is the only way to continue a portion of it after you die. The finance center simply deducts the premium before paying you. Such automatic deductions result in coverage that cannot lapse because of a missed payment.
- Here's something worth thinking about: if you find living on 93.5 percent of your retired pay (retired pay minus 6.5 percent spouse costs) to be painful – how will your family survive on zero after your death?
- The 6.5 percent spouse cost does not increase. However, with each retired pay COLA received, your cost becomes 6.5 percent of a new, higher amount, which produces a higher annuity.

- SBP is not intended to be an “inheritance” vehicle. But consider the notion that the best inheritance you can give your kids is a financially independent parent. If they are not burdened with supporting your spouse, that is a substantial “inheritance.” Also, when SBP is used to pay monthly living expenses, perhaps other funds can be invested to meet your inheritance goals. But without SBP as the workhorse, the intended “inheritance” could easily be depleted.
- SBP does not have insurance-like features, but that is a plus as it keeps the plan affordable.



LEARNER ACTIVITY: *The SBP Debate*

Time: 15 minutes



Materials: Blank paper, pens and pencils

Procedure: Divide the class into two groups. Explain that the key to making informed decisions is to have all of the facts about a topic. Tell learners that you are going to facilitate a debate on the pros and cons of SBP. Assign one group as the “pro” group and one group as the “con” group. Provide learners with paper and pens and instruct them to come up with all the points (pro or con) that would enable them to make a valid argument for their position. Learners should be prepared to state at least five points for their debate and can use their handout or any notes to formulate their argument.

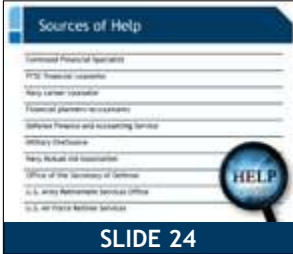
Give learners five minutes to develop their points and choose a speaker(s). Tell learners they may present their points in any way they choose but that they only have two minutes to defend their position. (Note: You may wish to have a timer available or assign a learner as the timekeeper for the debate portion.) Fill in any missing points before completing the activity. Once both groups have presented their arguments, ask learners to share their thoughts on SBP now that they have all the facts. You might ask questions such as:

- What do you feel is the greatest argument for enrolling in the SBP?
- What are the possible downsides of enrolling in the SBP?
- Has this class influenced your decision on SBP? (Ask them to elaborate on how it was influenced.)

Note: if time allows, you may also choose to have rebuttal arguments on the pros and cons of SBP. However, you should save enough time to ask for learner feedback on how this class has influenced their understanding and/or decision to participate in the SBP.

SUMMARY

SOURCES OF HELP



You can obtain help evaluating your personal financial needs from both military and civilian sources. Your Command Financial Specialist (CFS) and FFSC financial counselors and Navy career counselors can help you estimate your retirement needs and further explain how SBP plays into your retirement planning. Financial planners or accountants also can be helpful; however, make sure they possess knowledge on military retirement plans and ask them how they expect to be compensated. Look for designations such as CFP (Certified Financial Planner), AFC (Accredited Financial Counselor) and/or CPA (Certified Public Accountant).

You can also find additional, in-depth information on SBP at the following websites.

- Defense Finance and Accounting Service: www.dfas.mil/retiredmilitary/provide/sbp.html
- Military OneSource: www.militaryonesource.mil/casualty?content_id=270439
- Navy Mutual Aid Association: <https://www.navy mutual.org/Education/Military-Benefits/Survivor-Benefits.aspx>
- Office of the Secretary of Defense: <http://militarypay.defense.gov/Benefits/SurvivorBenefitProgram.aspx>
- U.S. Army Retirement Services Office: <http://soldierforlife.army.mil/retirement/sbp>
- U.S. Air Force Retiree Services: <http://www.retirees.af.mil/sbp/>

Survivor Benefit Plan Information and Resources

The SBP is a government-subsidized program that guarantees that a portion of a service member's monthly retirement pay will continue to be paid to a spouse or other designated beneficiary after the service member's death. Unlike any other resource available, the SBP monthly payment is guaranteed by the government and protected from inflation.

ENROLLMENT:

All active-duty service members are automatically enrolled in SBP. The government bears the total cost of that coverage while you are on active duty. Should you die in the line of duty, your retired pay entitlement is calculated as of that date, and the SBP annuity flows to your surviving spouse from that amount.

Your decision at retirement, then, is whether you wish to afford your family the same survivor benefits that were in place for you on your last active-duty day. If so, you begin to share SBP's cost with the government by electing to receive reduced retired pay during your lifetime. When a service member maintains SBP coverage, their portion of the cost will be deducted from their retired pay on a pretax basis. The government cost-sharing and pretax treatment of the service member's cost makes the SBP an attractive way to provide long-term financial security for a beneficiary.

ELECTION OPTIONS:

There are six SBP election options. An election enrolls eligible beneficiaries within a category. The most important feature of electing by category is that the decision you make for each category available to you at decision time is binding.

Spouse only: SBP was designed with the military spouse in mind (former spouse costs and benefits follow the same rules). The annuity is paid throughout the surviving spouse's lifetime; it cannot be outlived.

Spouse and children: With the spouse and child option, the spouse is the primary beneficiary and children are secondary beneficiaries. The annuity is not paid to the children unless the spouse first loses eligibility through remarriage before age 55 or by death. Even then, the children must be under age 18 (or 22 for full-time students) to be eligible.

Children only: Children are eligible for coverage if they are unmarried and under the age of 18. If they are still full-time students, they can be covered until age 22. Coverage also applies to children who are unable to support themselves due to a physical or mental disability that existed before they were 18 or 22, if the child was a full-time student when they became incapacitated or disabled.

Former spouse: Benefits for a former spouse are identical to spousal benefits. If a former spouse is covered by SBP, a current spouse and/or children of the current spouse cannot be covered. When electing former spouse coverage, the member must file a written statement with the Defense Finance and Accounting Service (DFAS) indicating the reason for the election. The current spouse must also be informed of the election.

Former spouse and children: For the former spouse and children option, the spouse benefits are the same as the former spouse option. This option, however, only applies to the former spouse's children with the service member.

Insurable interest: If a service member is unmarried, they may cover another family member or a business associate. Covered family members must be more closely related than a cousin. Parents, stepparents, siblings, aunts, uncles and grandparents all qualify. An individual child or stepchild can be covered regardless of dependency status. Business associates can also be protected if they would suffer financially due to the death of the retiree.

COSTS:

Spouse or former spouse: The cost is 6.5 percent of the base amount. The service member can choose any amount from \$300 to their full retired base pay. For example, with a base amount of \$1,000 per month, the cost for spouse coverage is \$65. The annuity is 55 percent of \$1,000 (or \$550) regardless of age.

Spouse (or former spouse) and child: The spouse portion of this election costs 6.5 percent of the base amount. The child cost portion is based on the ages of the retiree, the spouse and the youngest child. This cost is reasonable, given typical ages.

Child only: The cost is based on the ages of the retiree and youngest child. Children are primary beneficiaries in this option. Eligible children equally divide the 55 percent benefit. Premiums continue until the youngest child is no longer eligible for benefits.

Insurable interest: The base amount must be full retired pay in this option. Costs are 10 percent of retired pay, plus 5 percent for each full five years younger the beneficiary is than the retiree, not to exceed 40 percent of retired pay. This option may be canceled at any time. Should you gain a spouse or child in the future, the insurable interest coverage may be changed to spouse or child or both within one year of the change.

USEFUL WEBSITES:

- Defense Finance and Accounting Service: www.dfas.mil/retiredmilitary/provide/sbp.html
- Military OneSource: www.militaryonesource.mil/casualty?content_id=270439
- Navy Mutual Aid Association: <https://www.navymutual.org/Education/Military-Benefits/Survivor-Benefits.aspx>
- Office of the Secretary of Defense: <http://militarypay.defense.gov/Benefits/SurvivorBenefitProgram.aspx>
- U.S. Army Retirement Services Office: <http://soldierforlife.army.mil/retirement/sbp>
- U.S. Air Force Retiree Services: www.retirees.af.mil/sbp