

RESERVE COMPONENT **SBP**

**STRAIGHT
FACTS**
about the
**Survivor
Benefit Plan**



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Your decision regarding participation in the Reserve Component Survivor Benefit Plan (RC-SBP) is a significant one. It will affect your net disposable income and that of your family for the rest of your lives. Rumors and myths about this program abound. This paper has been prepared to provide you with important facts and considerations about SBP so that you can make an informed decision for your family.

RC-SBP is similar to term insurance, with a few significant differences. Unlike term insurance, SBP coverage never terminates due to your age. It also provides an inflation-protected annuity for the life of your spouse or other eligible beneficiary. Let's review some important facts about the plan:

- 1. Three options to choose from: You will receive a package when you become retirement eligible that will require you to make a decision about RC-SBP.** If you do not make an election within 90 days you will automatically be enrolled in Option C using your full retired pay as the base amount. The three options are:
 - a. Option A: Decline participation.** You will be given another opportunity to choose RC-SBP when you begin to draw retired pay.
 - b. Option B: Deferred Annuity.** Your beneficiary will receive annuity payments beginning on the anniversary of your 60th birthday.
 - c. Option C: Immediate Annuity.** Your beneficiary will receive annuity payments immediately after your death.
- 2. Your Premiums are not taxed.** Your RC-SBP premiums are paid with tax-exempt dollars. The premium rate for Spouse Coverage is 6.5% of the Base Amount of your retirement or retainer pay that you elect to protect (Base Amount can be any amount from \$300 to full retired pay). In a 28% tax bracket, the net cost of SBP drops to approximately 4.7% of the Base Amount you select. When shopping for alternatives, it's always wise to compare costs to the Net SBP Premium.
- 3. The payments to your family are secure, subsidized and Cost of Living Adjustment (COLA)-protected.** The payments to your spouse are contractual obligations of the U.S. Government. In addition to the tax advantage, the government currently pays 25% - 40% of the cost of this program for non-disability retirees. Your premiums reflect your costs after this subsidy. RC-SBP annuity payments are indexed to retiree COLA.
- 4. SBP is not affected by Social Security.** Your spouse will receive SBP in addition to any Social Security survivor benefits to which he or she is entitled.
- 5. If you sign up for RC-SBP, you are not committed for life.** You may terminate your participation in RC-SBP between your 24th and 36th month of drawing retirement pay. In the past, many service members were reluctant to make a life-long commitment to RC-SBP at the time of retirement because their future was uncertain. The next job, where they wanted to live, their cash flow, etc. were all unknown. You can now sign up for RC-SBP, have significant coverage in place until you draw retired pay, then reconsider your choice two years down the road when you are more comfortable with your retirement situation. You can opt out of the plan during the one year window, if you feel SBP is no longer needed to protect your family.
- 6. You do not pay for RC-SBP until you draw retired pay.** RC-SBP payments are automatically deducted from your retired pay. The cost of RC-SBP is made up of two components: the SBP cost and the survivors cost. The SBP cost is 6.5% of the base amount you elect and this is the cost if you elect Option A then elect to participate at age 60. Option B and C have an additional "survivors cost" which is based on your age and the age of the beneficiary at the time of election. If you elect Option B or C and die before you reach age 60, your beneficiary will receive annuity payments based on the base amount you elected minus the survivor cost of RC-SBP. In these cases your survivors will not have to pay the SBP cost for this benefit.

7. **Your surviving spouse may not lose RC-SBP upon remarriage.** If your spouse remarries after age 55, RC-SBP will continue for the rest of his or her life without interruption. If a surviving spouse remarries prior to age 55, RC-SBP payments will be suspended until (or unless) the surviving spouse loses that subsequent spouse through death or divorce. These conditions only apply to Option B or C.
8. **You stop paying for RC-SBP when you no longer have beneficiaries.** If you should lose your spouse through either death or divorce, your RC-SBP premiums will stop once you submit the death certificate or divorce decree to DFAS. Please note that if your divorce decree requires continuation of RC-SBP then you will be required to continue paying premiums. If you elect Child Coverage, your child premiums will stop once your youngest child reaches age 18 (or 22 if your child is a continuing student).
9. **RC-SBP will be there to protect your spouse if you remarry.** If you lose your spouse and your RC-SBP premiums stop, you will be able to elect RC-SBP to cover a new spouse if you remarry. In fact, RC-SBP coverage will be automatically effective for a new spouse unless you request not to continue coverage within one year of your remarriage. Your premiums will simply start up again and you will not be required to make up the premiums for the time you were unmarried. No proof of insurability is required for RC-SBP. On the other hand, you can have only one spousal beneficiary at a time. If you divorce, and assign the RC-SBP to your former spouse, you will continue paying the RC-SBP premiums for his/ her protection. Then, if you remarry, RC-SBP will not be available to cover your next spouse.
10. **RC-SBP income is taxed.** RC-SBP payment to your beneficiary is subject to income tax as ordinary income just like your retired pay. Note that if life insurance is used as a substitute for RC-SBP, your beneficiary will not be taxed on the death benefit, but your beneficiary will need to invest the death benefit in order to provide a life-income stream and the earnings on that investment will be taxed.
11. **You choose what coverage to provide and how much to pay.** You can elect to cover any amount of your retirement from \$300 up to your full retired pay. The premium rate for Option A, Spouse Coverage is 6.5% of the base amount of your retirement or retainer pay that you elect to protect. In a 28% tax bracket, the net cost of SBP drops to approximately 4.7% of the base amount you select. (Premiums for coverage on base amounts less than the “threshold” base amount may be charged a lesser percentage.) The premiums you pay remain a constant percent of the base amount. As the base amount rises over time reflecting COLA adjustments, your premiums will increase at the same rate. Option B and C contain an additional “survivors cost” which is based on your age and the age of your beneficiary at the time of election.
12. **Your spouse must concur in your decision.** If you intend to choose anything less than Option C with your full retired pay as your base amount and any option other than “Spouse Only” or “Spouse and Child” then *your spouse must sign the SBP election form within 90 days of receiving your retirement package* concurring that he or she will be less than fully covered under RC-SBP. If you do not respond or if there is no spouse signature you will automatically be signed up for Option C with full retired pay coverage.

When Assessing SBP Costs and Comparing Insurance Alternatives Be Sure To Visit These Websites for RC-SBP Plan Details and Cost Calculators

- www.navy mutual.org
“Reserve Component Calculator” downloadable reserve SBP calculator
- http://arpc.afrc.af.mil/tools/rcsbp_calculator/default.asp
Downloadable calculator for determining SBP costs and benefits for Reservists



POINTS TO CONSIDER

- 1. Your spouse cannot outlive RC-SBP.** If you choose life insurance as an alternative to RC-SBP, then you will need to invest the death benefit in order to provide a steady stream of COLA protected income for your spouse for the rest of his/her life. That may be fine if your spouse lives to a normal life expectancy, but what if they live well beyond that? Will there be enough funds? RC-SBP will continue to be paid out as long as your spouse is alive.
- 2. There are no investment decisions required by your family.** If you provide life insurance as an alternative to RC-SBP, your beneficiary will be required to invest the death benefit in an appropriate investment, if he or she desires a steady stream of income for a particular length of time. There will no doubt be plenty of financial experts willing to help your family for a fee but they may not be aware of military benefits or have your family's best interests at heart. There are no investment decisions required for RC-SBP and no investment risks to worry about. RC-SBP is guaranteed, inflation-protected, monthly, lifetime income for your spouse regardless of how interest rates or the stock market perform.
- 3. No proof of insurability is required for RC-SBP coverage.** If you are thinking of using life insurance as an alternative to RC-SBP, then ensure it is in place before you retire. There is always a possibility that the insurance company will find a medical condition which makes you ineligible for insurance coverage or find that you are not insurable at its standard rates. You cannot be denied RC-SBP coverage at retirement. Additionally, to fully replace RC-SBP, you may need a considerable amount of coverage that could be more costly than the RC-SBP annuity. Comparing cost alternatives is usually an important step in your decision making process.
- 4. Beneficiaries are limited.** Generally under RC-SBP, your spouse is the only beneficiary unless child coverage is also elected. Additionally, unless children are handicapped and require a guardian, their beneficiary status terminates at age 18 (or 22 if a full-time student). Life insurance would be the alternative if this is an important issue for you in estate planning.
- 5. RC-SBP is protection only.** RC-SBP can provide significant benefits for your surviving spouse and children. However, if your beneficiaries should predecease you, there are no additional benefits for the premiums you have paid. If this is a significant issue for you, then one good alternative would be permanent life insurance, which can provide both protection and tax-deferred savings.
- 6. RC-SBP is a firm commitment to providing protection for your family.** Service members who decline to enroll in RC-SBP are no less concerned about providing protection for their families. Most look to a combination of life insurance and systematic investing to provide for their survivors. All are well intentioned. However, there are a variety of challenges to this plan. Car accidents, large home or auto repair needs, college costs, and weddings are just some of the costs that can compete with "the plan" and often funds are diverted to meet "more urgent" needs. RC-SBP premiums are automatically deducted from your retired pay by DFAS and, unless you disenroll between your 2nd and 3rd year of retirement, you are firmly committed to RC-SBP.
- 7. Comparing RC-SBP with life insurance plans.** It's usually wise for your comparison to take into account all the features of SBP. The inflation protection, the lifelong coverage, and the tax benefit of pre-tax premium payments for SBP are not included in most life insurance plans.

- www.va.gov
Provides in-depth information on all survivor benefits
- <http://arpc.afrc.af.mil/entitlements/rcsbp.asp#0>
Retired Pay section provides SBP plan details

YOUR RC-SBP DECISION: WEIGHING THE ISSUES

Navy Mutual Aid Association's conclusion is that, for *most* retirees, selection of Option C with full coverage under the Survivor Benefit Plan is a good choice. Alternatives usually require the assumption of significantly greater risk or cost, often both. However, RC-SBP is not the right choice for everyone.

- 1. Life Expectancy.** Consider the life expectancy of both you and your spouse. In general women live 5-6 years longer than their husbands. Your states of health and family histories will also impact your relative life expectancies. If your spouse is reasonably expected to outlive you, then that would usually tip the scale toward RC-SBP.
- 2. Savings and Investments.** Most retirees do not leave the service with large investment portfolios. However, if you have a sizeable estate that would provide a stream of income for your family, then that might tip the scale away from RC-SBP. How much they would need to have available will depend on the particular income needs of your survivors. Remember though, that estate would likely be consumed in support of your spouse, with little left over to pass to your heirs.

Life Insurance. Life insurance can be an alternative to RC-SBP. Key points you may want to consider are:

- The amount of coverage necessary to replace RC-SBP can be sizeable. If you do not have a large amount of life insurance already in place before you retiree, you may find that the cost to provide life insurance protection is significant depending on your age at retirement.
- There are two basic types of life insurance - Term and Permanent.
 - Term life insurance will be less expensive initially, but the policy will terminate at the end of the specified time period. This can either be for a set number of years or at some specified age. Most insurers will limit you to either a guaranteed period such as 20 years or a maximum age such as 75. If you outlive the term, there will be no protection unless you are medically insurable to purchase a new term policy at significantly greater cost.
 - Permanent insurance will be there when you die and it may have tax-deferred cash value growth inside the policy. This can be an excellent alternative to RC-SBP, but it will normally cost you much more than SBP. As most retirees experience an increase in income, there may be more funds available to purchase permanent life insurance.

If you are leaving the service with little life insurance in place, that would tip the scale towards RC-SBP.

- 3. Spouse Self Support Capability.** Your spouse may have a job and be able to continue working after your death, so your spouse's need for additional income may not be as great. Your spouse may already be vested in a retirement plan that would be able to provide for retirement needs. This factor plus adequate life insurance and/or savings and investments may tip the scale away from RC-SBP.
- 4. Providing for Other People.** If you want to provide an estate for your adult children, your siblings, or other individuals, you will have to use some other means than RC-SBP to achieve that goal.
- 5. Inheritance.** You may be confident that you will receive a large inheritance. Be cautious however, as long-term care needs for aging parents can often deplete their estate, leaving your long-term plan in disarray and survivors short of needed income.
- 6. What role does Reserve pay play in your finances.** The role of Reserve pay and, in the future, retired pay in your overall financial plan may have a big effect on your decision to elect RC-SBP. If Reserve pay is an important part of your financial plan then you must protect it in the event of your death and elect RC-SBP. If, on the other hand, your Reserve pay is not essential then other options may be better.

SHOPPING AROUND: COMPARING ALTERNATIVES

When comparing costs, risks, and benefits, it's helpful to compare costs with the **Net Premium** for RC-SBP.